

HICKMAN COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014

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INTRODUCTORY SECTION

HICKMAN COUNTY SCHOOL DISTRICT

June 30, 2014

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Casey Henderson, Superintendent
Susan Farlee, Finance Officer

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Independent Auditor's Report

Kentucky State Committee for School District Audits
Hickman County Board of Education
Clinton, 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 Hickman 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 41-42 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 Hickman County School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2014, on our consideration of the Hickman 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 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 Hickman County School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
October 2, 2014

Hickman County Schools

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SCOTT MITCHELL, Vice Chairman
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Clinton, KY 42031

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JAN JOHNSON
Assessment/Instruction
Title I

HICKMAN COUNTY SCHOOL DISTRICT—CLINTON, KY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

The discussion and analysis of the Hickman County School District (District) provides a narrative overview and analysis of the District's financial statements and activities of the District for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$ 612,566. The beginning cash balance for 2014 was \$ 20,474 less than the prior year.
- The General Fund had \$ 6,621,802 in revenue, which primarily consisted of the state program (SEEK), property, franchise, utilities and motor vehicle taxes. The General Fund expenditures were \$ 6,619,910.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These financial statements are organized so the reader can understand the Hickman County School District as a whole or as one operating entity (government-wide financial statements). The statements then proceed to provide an increasingly detailed look at the District's operations by providing information about the District's most significant funds (fund financial statements).

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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.

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. These statements include the Statement of Net Position and the Statement of Activities. In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct types of activities:

- Governmental activities – All of the District's programs and services are reported here, including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- Proprietary (Business-Type) Activity – This service is provided on a charge for goods or services basis to recover all the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business activity.

The Statement of Net Position (on page 12) presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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 (on page 13) 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.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. All of the funds of the District can be divided into two categories: governmental and proprietary (business-type) funds. The only proprietary funds are our food service operations. All other activities of the district are included in the governmental funds.

Fund financial statements start on page 14 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 start on page 22 of this report.

THE SCHOOL DISTRICT AS A WHOLE -- GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,466,760 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, building and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for

future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Table 1 provides a comparison of the District's net position for 2013 and 2014.

**Table 1
Net Position**

Assets	2013	2014
Current Assets	\$ 1,337,411.	\$ 1,441,435.
Noncurrent Assets	\$ 11,544,655.	\$ 10,700,474.
Total Assets	\$ 12,882,066.	\$ 12,141,909.
Deferred Outflows of Resources	\$ 0	\$ 203,926.
Liabilities		
Current Liabilities	\$ 614,414.	\$ 644,412.
Noncurrent Liabilities	\$ 5,627,716.	\$ 5,234,663.
Total Liabilities	\$ 6,242,130.	\$ 5,879,075.
Net Position		
Net Investment in Capital Assets	\$ 5,556,352.	\$ 5,500,733.
Restricted	\$ 421,045.	\$ 439,832.
Unrestricted	\$ 662,539.	\$ 526,195.
Total Net Position	\$ 6,639,936.	\$ 6,466,760.

Table 2 shows changes in net position for fiscal year 2014 as compared to 2013.

Table 2
Changes in Net Position

	2013	2014
Revenues		
Program Revenues:		
Charges for Services	\$ 176,193.	\$ 155,767.
Operating Grants and Contributions	\$ 1,624,285.	\$ 1,444,104.
General Revenues:		
Local Taxes	\$ 2,215,693.	\$ 2,178,514.
Investment Earnings	\$ 12,304.	\$ 11,732.
Other Local Revenue	\$ 124,499.	\$ 163,505.
State Aid-Formula Grants	\$ 4,953,752.	\$ 5,014,616.
Medicaid Reimbursement	\$ 23,530.	\$ 16,309.
Insurance Recoveries	\$ 18,457.	\$ 0
Gain (Loss) on Disposal of Assets	\$ (288.)	\$ 1,804.
Total Revenues	\$ 9,148,425.	\$ 8,986,351.
Program Expenses		
Instruction	\$ 4,860,062.	\$ 4,548,549.
Support Services		
Student	\$ 378,584.	\$ 290,801.
Instructional Staff	\$ 275,348.	\$ 335,611.
District Administration	\$ 482,312.	\$ 618,087.
School Administration	\$ 412,864.	\$ 300,921.
Business	\$ 289,663.	\$ 276,044.
Plant Operations and Management	\$ 1,128,297.	\$ 1,164,153.
Student Transportation	\$ 500,901.	\$ 579,749.
Non-Instructional Services	\$ 110,163.	\$ 111,018.
Facility Acquisition and Construction	\$ 0	\$ 18,000.
Interest on long-term debt	\$ 176,439.	\$ 170,771.
Depreciation and amortization-unallocated	\$ 10,907.	\$ 0
Food Service	\$ 625,015.	\$ 629,555.
Total Expenses	\$ 9,250,555.	\$ 9,043,259.
Change in Net Position	\$ (102,130.)	\$ (56,908.)

Governmental Activities

Total revenues for governmental activities for 2014 were \$ 8,378,843. Taxes made up 26.0% of revenues for governmental activities for the District. State aid and state and federal grants accounted for 71.69% of total revenue. The total cost of all programs and services for governmental activities was \$8,413,704. Instruction for governmental activities comprises 54.06% of expenses. Expenses for governmental activities for the District for 2014 exceeded revenues by \$ 34,861.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services for governmental activities. The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

Table 3
Cost of Services

	Total Cost of Services 2014	Net Cost of Services 2014
Instruction	\$ 4,548,549.	\$ 3,556,056.
Support Services		
Student	\$ 290,801.	\$ 290,801.
Instructional Staff	\$ 335,611.	\$ 335,611.
District Administration	\$ 618,087.	\$ 618,087.
School Administration	\$ 300,921.	\$ 300,921.
Business	\$ 276,044.	\$ 276,044.
Plant Operations and Management	\$ 1,164,153.	\$ 1,164,153.
Student Transportation	\$ 579,749.	\$ 579,749.
Non-instructional Services	\$ 111,018.	\$ 111,018.
Facilities Acquisition and Construction	\$ 18,000.	\$ 18,000.
Interest on long-term debt	\$ 170,771.	\$ 170,771.
Total Expenses	\$ 8,413,704.	\$ 7,421,211.

Proprietary (Business-Type) Activities

The only proprietary (business-type) activity of the school district is the food service operation. The following table represents a summary of revenues and expenses for the fiscal year ended June 30, 2014.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 155,767
State revenue sources	\$ 4,978
State on-behalf payments	\$ 47,465
Federal revenue	\$ 371,288
Donated commodities	\$ 27,880
Interest	\$ 130
Total Revenue	\$ 607,508
Expenses:	
Food service	\$ 629,555
Total Expenses	\$ 629,555
Change in Net Position	\$ (22,047)

General Fund Budgetary Highlights

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, accounts receivable, disbursements, accounts payable and encumbrances. The most significant budgeted fund is the General Fund. The District received 68.1% of its General Fund revenue from state funding. Local taxes generated 30.6% of the total revenue. Other local revenues, investments and indirect federal funds make up the remaining 1.3%.

The majority of the General Fund budget was expended on direct student instruction (55.1%) and student support expenditures (9.0%) for a total of 64.1% of the General Fund expenditures for instruction. The remaining 35.9% was expended for central support services (31.0%) and school administrative support (4.9%). Central support expenditures were Transportation 24.16%, Plant Operation and Maintenance 37.51 %, District Administration 24.89%, and Business 13.44%.

A component of MD&A is an analysis of significant variations between the original (May) and final (September) budgets and between final budget amounts and actual budget results (actual revenues and expenses) for the General Fund. Conservative budgeting of revenues resulted in actual receipts exceeding the budgeted amounts. On behalf payments made by the state are not included in budgeted amounts and, therefore, create overages in both the revenue and corresponding expenditure accounts. Variances in expenditure accounts as a result of unexpected events and/or decisions made after the preparation of the working budget include the following:

District Administrative Support

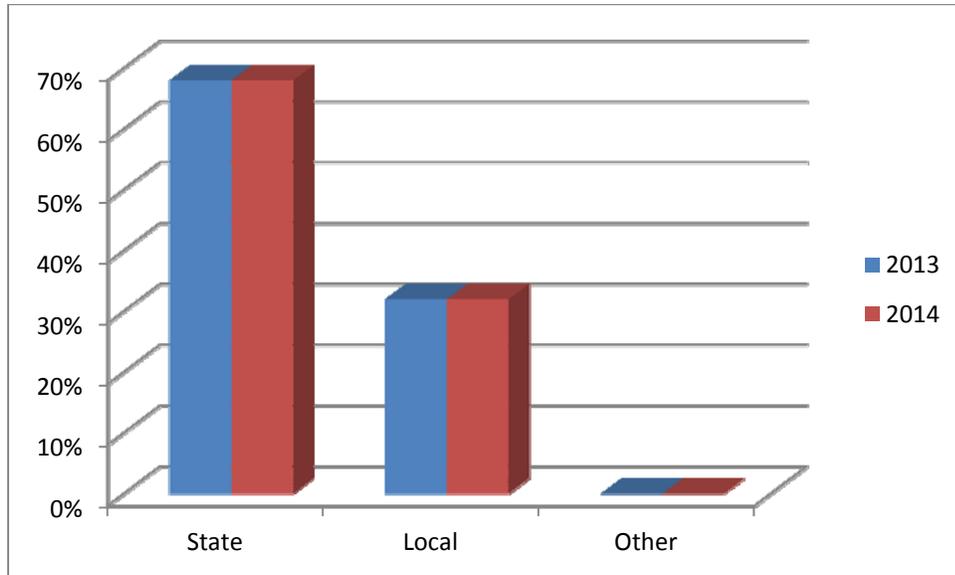
Expenditures for Administrative Support exceeded the budget due to court-ordered assessments for the Kentucky School Boards Insurance Trust Workers' Compensation and Property and Liability Programs.

Fund Transfers

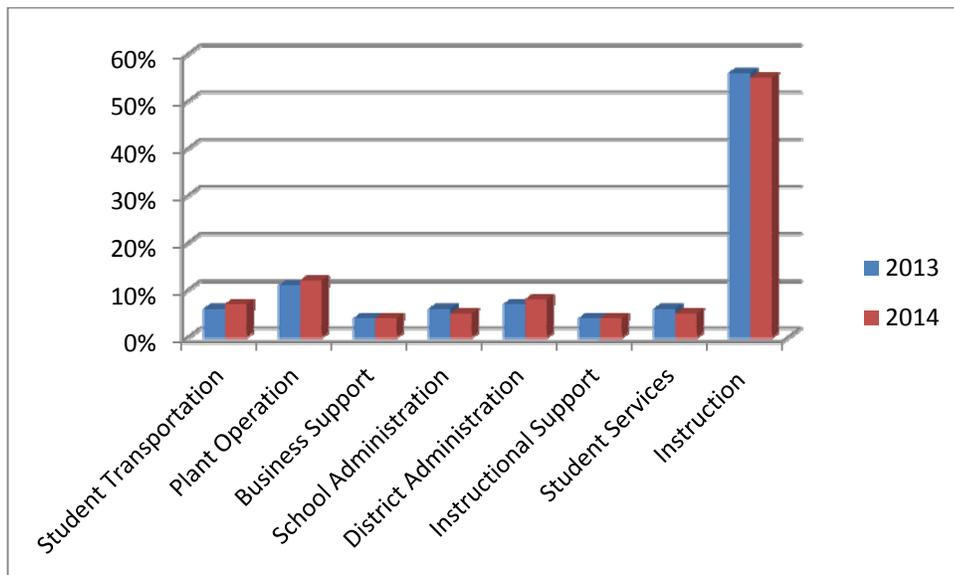
The District transfers included SFCC KETS matching funds, Community Education matching funds and the District costs for the Gifted Education Consortium.

General Fund Revenue for 2014 was \$6,621,802, which is a .49% increase over 2013. The following charts indicate the percentages of sources of funding and the percentages of categories of expenditures.

GENERAL FUND REVENUE SOURCES



GENERAL FUND EXPENSES



CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of the fiscal year 2014, the District had \$ 10,700,474 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal year 2014 balances.

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

	Governmental Activities 2014	Proprietary (Business-type) Activities 2014
Land and Improvements	\$ 310,348.	
Buildings and Improvements	\$ 9,281,565.	\$ 457,007.
Technology Equipment	\$ 164,184.	\$ 4,529.
Vehicles	\$ 216,479.	
General Equipment	\$ 109,867.	\$ 156,495.
Total Capital Assets	\$ 10,082,443.	\$ 618,031.

Debt Administration

As of June 30, 2014, the District had \$ 5,415,465 of outstanding debt.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the district overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a 2014 budget with \$ 164,715 in contingency (2.92%).

Questions regarding this report should be directed to Casey Henderson, Superintendent, or to Susan Farlee, Finance Officer, at (270) 653-2341 or by mail at 416 Waterfield Drive North, Clinton, Kentucky 42031.

BASIC FINANCIAL STATEMENTS

**HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION**

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 716,647	\$ 62,459	\$ 779,106
Receivables			
Accounts	34,985	-	34,985
Intergovernmental - State and local	78,485	-	78,485
Intergovernmental - Federal	115,179	-	115,179
Inventories	-	13,031	13,031
Restricted investments	420,649	-	420,649
Capital assets not being depreciated			
Land	60,000	-	60,000
Capital assets, net of accumulated depreciation			
Land improvements	250,348	-	250,348
Buildings and improvements	9,281,565	457,007	9,738,572
Technology equipment	164,184	4,529	168,713
Vehicles	216,479	-	216,479
General equipment	109,867	156,495	266,362
Total assets	11,448,388	693,521	12,141,909
Deferred Outflows of Resources			
Deferred amount on refunding	203,926	-	203,926
Total deferred outflows of resources	203,926	-	203,926
Liabilities			
Accounts payable	25,726	-	25,726
Unearned revenue	65,481	-	65,481
Accrued interest	28,314	-	28,314
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	53,184	-	53,184
Bonds	461,368	-	461,368
Accrued sick leave	10,339	-	10,339
Portion due or payable after one year			
Insurance assessment	101,370	-	101,370
Bonds	4,942,299	-	4,942,299
Accrued sick leave	190,994	-	190,994
Total liabilities	5,879,075	-	5,879,075
Net Position			
Net investment in capital assets	4,882,702	618,031	5,500,733
Restricted for			
Sick leave	33,000	-	33,000
Debt service	392,349	-	392,349
SFCC escrow	14,483	-	14,483
Unrestricted	450,705	75,490	526,195
Total net position	\$ 5,773,239	\$ 693,521	\$ 6,466,760

The accompanying notes are an integral part of these financial statements.

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities						
Instruction	\$ 4,548,549	\$ -	\$ 992,493	\$ (3,556,056)	\$ -	\$ (3,556,056)
Support services						
Student	290,801	-	-	(290,801)	-	(290,801)
Instructional staff	335,611	-	-	(335,611)	-	(335,611)
District administration	618,087	-	-	(618,087)	-	(618,087)
School administration	300,921	-	-	(300,921)	-	(300,921)
Business	276,044	-	-	(276,044)	-	(276,044)
Plant operations and management	1,164,153	-	-	(1,164,153)	-	(1,164,153)
Student transportation	579,749	-	-	(579,749)	-	(579,749)
Non-instructional services	111,018	-	-	(111,018)	-	(111,018)
Facilities acquisition and construction	18,000	-	-	(18,000)	-	(18,000)
Interest on long-term debt	170,771	-	-	(170,771)	-	(170,771)
Total governmental activities	<u>8,413,704</u>	<u>-</u>	<u>992,493</u>	<u>(7,421,211)</u>	<u>-</u>	<u>(7,421,211)</u>
Business-Type Activities						
Food service	629,255	155,767	451,311	-	(22,177)	(22,177)
Total business-type activities	<u>629,255</u>	<u>155,767</u>	<u>451,311</u>	<u>-</u>	<u>(22,177)</u>	<u>(22,177)</u>
Total primary government	<u>\$ 9,042,959</u>	<u>\$ 155,767</u>	<u>\$ 1,443,804</u>	<u>(7,421,211)</u>	<u>(22,177)</u>	<u>(7,443,388)</u>
General Revenues:						
Taxes						
Property				1,425,957	-	1,425,957
Motor vehicle				178,284	-	178,284
Utilities				306,002	-	306,002
Other				268,271	-	268,271
Investment earnings				11,602	130	11,732
Other local revenue				163,505	-	163,505
State aid - formula grants				5,014,616	-	5,014,616
Medicaid reimbursement				16,309	-	16,309
Gain on disposal of assets				1,804	-	1,804
Total general revenues				<u>7,386,350</u>	<u>130</u>	<u>7,386,480</u>
Change in net position				(34,861)	(22,047)	(56,908)
Net position, beginning of year				5,924,368	715,568	6,639,936
Prior period adjustment				(116,268)	-	(116,268)
Total net position, beginning of year restated				<u>5,808,100</u>	<u>715,568</u>	<u>6,523,668</u>
Net position, end of year				<u>\$ 5,773,239</u>	<u>\$ 693,521</u>	<u>\$ 6,466,760</u>

The accompanying notes are an integral part of these financial statements.

**HICKMAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 702,150	\$ -	\$ 14	\$ 14,483	\$ 716,647
Receivables					
Accounts	34,985	-	-	-	34,985
Intergovernmental - State and local	-	78,485	-	-	78,485
Intergovernmental - Federal	-	115,179	-	-	115,179
Due from other funds	125,730	-	-	-	125,730
Restricted investments	-	-	420,649	-	420,649
Total assets	\$ 862,865	\$ 193,664	\$ 420,663	\$ 14,483	\$ 1,491,675
Liabilities					
Accounts payable	\$ 76,457	\$ 2,453	\$ -	\$ -	\$ 78,910
Due to other funds	-	125,730	-	-	125,730
Unearned revenue	-	65,481	-	-	65,481
Total liabilities	76,457	193,664	-	-	270,121
Fund Balances					
Restricted	33,000	-	420,663	14,483	468,146
Assigned	30,150	-	-	-	30,150
Unassigned	723,258	-	-	-	723,258
Total fund balances	786,408	-	420,663	14,483	1,221,554
Total liabilities, deferred inflows of resources and fund balances	\$ 862,865	\$ 193,664	\$ 420,663	\$ 14,483	\$ 1,491,675

The accompanying notes are an integral part of these financial statements.

**HICKMAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2014

Total fund balances - governmental funds	\$ 1,221,554
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$16,415,800 and the accumulated depreciation is \$6,333,357</p>	10,082,443
<p>Certain long-term assets related to bond issue costs are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.</p>	203,926
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>	
Bonds payable	(5,403,667)
Accrued interest on the bonds	(28,314)
Accrued sick leave payable	(201,333)
Insurance Assessment	<u>(101,370)</u>
Total net position - governmental activities	<u>\$ 5,773,239</u>

The accompanying notes are an integral part of these financial statements.

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
From local sources					
Taxes					
Property	\$ 1,292,298	\$ -	\$ -	\$ 133,659	\$ 1,425,957
Motor vehicle	159,054	-	-	19,230	178,284
Utilities	306,002	-	-	-	306,002
Other	268,271	-	-	-	268,271
Earnings on investments	2,255	-	9,334	13	11,602
Other local revenues	69,021	132,985	-	-	202,006
Intergovernmental - State	4,508,592	329,636	332,415	173,609	5,344,252
Intergovernmental - Indirect Federal	16,309	624,356	-	-	640,665
Total revenues	<u>6,621,802</u>	<u>1,086,977</u>	<u>341,749</u>	<u>326,511</u>	<u>8,377,039</u>
Expenditures					
Current					
Instruction	3,645,459	887,883	-	-	4,533,342
Support Services					
Student	304,739	-	-	-	304,739
Instructional staff	292,037	38,563	-	-	330,600
District administration	511,015	-	-	-	511,015
School administration	324,710	-	-	-	324,710
Business	275,862	-	-	-	275,862
Plant operation and management	769,970	-	-	-	769,970
Student transportation	495,975	20,163	-	-	516,138
Non-instructional services	143	109,802	-	-	109,945
Facilities acquisition and construction	-	-	-	18,000	18,000
Debt Service					
Principal	-	-	472,000	-	472,000
Interest and issuance cost	-	-	161,863	-	161,863
Total expenditures	<u>6,619,910</u>	<u>1,056,411</u>	<u>633,863</u>	<u>18,000</u>	<u>8,328,184</u>
Excess (deficit) of revenues over expenditures	<u>1,892</u>	<u>30,566</u>	<u>(292,114)</u>	<u>308,511</u>	<u>48,855</u>
Other Financing Sources (Uses)					
Compensation for loss of assets	2,610	-	-	-	2,610
Transfers in	59,997	29,431	301,448	18,000	408,876
Transfers out	(29,431)	(59,997)	-	(319,448)	(408,876)
Total other financing sources (uses)	<u>33,176</u>	<u>(30,566)</u>	<u>301,448</u>	<u>(301,448)</u>	<u>2,610</u>
Net change in fund balances	35,068	-	9,334	7,063	51,465
Fund balances, beginning of year	<u>751,340</u>	<u>-</u>	<u>411,329</u>	<u>7,420</u>	<u>1,170,089</u>
Fund balances, end of year	<u>\$ 786,408</u>	<u>\$ -</u>	<u>\$ 420,663</u>	<u>\$ 14,483</u>	<u>\$ 1,221,554</u>

The accompanying notes are an integral part of these financial statements.

HICKMAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Total net change in fund balances - governmental funds **\$ 51,465**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$535,708) exceeds capital outlays (\$45,431) in the period. (490,277)

In the statement of activities, only the gain or loss on the sale of assets is reported. This is the amount by which the costs of retired assets exceed their accumulated depreciation. (806)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 472,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (5,276)

Expenditures from the call premium on the 1997 bond issue (\$34,500) were recorded as a use in the governmental funds in 2007-2008, which was the year they were called. This call premium was not recorded as an expenditure in the statement of activities, but rather was recorded as a reduction in long-term liabilities to be expensed in the statement of activities. The current year interest expense related to this call premium is \$3,632. (3,632)

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$53,184) is recorded as an expenditure. However, in the government-wide statement of net position, the total KSBIT insurance assessment (\$154,554) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year (\$53,184) reduces long-term liabilities. (101,370)

In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources. 43,035

Change in net position of governmental activities **\$ (34,861)**

**HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014**

	<u>Food Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 62,459
Inventories	<u>13,031</u>
Total current assets	<u>75,490</u>
Noncurrent Assets	
Buildings and improvements	1,035,533
Technology equipment	14,534
General equipment	375,268
Accumulated depreciation	<u>(807,304)</u>
Total noncurrent assets	<u>618,031</u>
Total assets	<u>693,521</u>
Liabilities	
Total liabilities	<u>-</u>
Net Position	
Net investment in capital assets	618,031
Unrestricted	<u>75,490</u>
Total net position	<u>\$ 693,521</u>

The accompanying notes are an integral part of these financial statements.

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Food Service Fund</u>
Operating Revenues	
Lunchroom sales	\$ 155,767
Total operating revenues	<u>155,767</u>
 Operating Expenses	
Salaries, wages and benefits	272,468
Contract services	11,639
Materials and supplies	298,253
Depreciation	44,966
Other	<u>1,929</u>
Total operating expenses	<u>629,255</u>
 Operating loss	 <u>(473,488)</u>
 Non-Operating Revenues (Expenses)	
Interest income	130
Donated commodities	27,880
Grants - child nutrition program	371,288
State funding - on-behalf payments	47,165
State matching	<u>4,978</u>
Total non-operating revenues (expenses)	<u>451,441</u>
 Change in net position	 (22,047)
 Total net position, beginning of year	 <u>715,568</u>
 Total net position, end of year	 <u>\$ 693,521</u>

The accompanying notes are an integral part of these financial statements.

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 155,767
Cash paid for:	
Salaries, wages and benefits	(225,303)
Contract services	(11,639)
Materials and supplies	(263,443)
Other	(1,929)
Net cash used by operating activities	<u>(346,547)</u>
Cash Flows from Noncapital Financing Activities	
Nonoperating federal grants received	398,684
Nonoperating state grants received	4,978
Net cash provided by noncapital financing activities	<u>403,662</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	<u>(19,728)</u>
Cash Flows from Investing Activities	
Interest income	<u>130</u>
Net increase in cash and cash equivalents	37,517
Cash and cash equivalents, beginning of year	<u>24,942</u>
Cash and cash equivalents, end of year	<u>\$ 62,459</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (473,488)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	44,966
Commodities used	27,880
Salaries, wages and benefits (on-behalf payments)	47,165
Changes in assets and liabilities	
Inventories	6,930
Net cash used by operating activities	<u>\$ (346,547)</u>
Noncash Noncapital Financing Activities	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 27,880</u>
State funding - on-behalf payments	<u>\$ 47,165</u>

The accompanying notes are an integral part of these financial statements.

**HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 74,066
Total assets	\$ 74,066
Liabilities	
Due to student groups	\$ 72,638
Due to agencies	1,428
Total liabilities	\$ 74,066

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hickman County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

A. Reporting Entity

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

The Board, for financial purposes, includes all of the funds relevant to the operation of the Hickman County Board of Education. 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.

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

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

Hickman County School District Finance Corporation – On June 3, 1992, the Hickman County, Kentucky, Board of Education resolved to authorize the establishment of the Hickman County School District Finance corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Hickman County Board of Education also comprise the Corporation's Board of Directors.

B. Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 activities presents a comparison between direct expenses and program revenues for each function of the governmental and business-type activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to meeting the financial 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 function is self-financing or is subsidized by the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three primary categories: governmental, business-type (proprietary), and fiduciary. An emphasis is placed on major funds within the governmental and business-type categories, and a fund is considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 5 percent of the corresponding total for all governmental and business-type funds combined.

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

The District has the following funds:

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- b. The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

disbursements for specified purposes. They include federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Building Fund 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 Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction.
 - 4. The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Type (Enterprise Fund)

- a. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program and School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund of the District.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

III. Fiduciary Fund Type (includes agency and trust funds)

- a. The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Program of Accounting for School Activity Funds. The Board has the responsibility for custody and safekeeping of other agency funds.

C. Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received, payments made by the State on-behalf of the District and the changes in the accrued sick leave during the year are reported in the statement of cash flows of the proprietary fund as a noncash, noncapital financing activity.

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

D. Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.535 per \$100 valuation for real property, \$.535 per \$100 valuation for business tangible personal property, and \$.547 per \$100 valuation for motor vehicles.

E. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,000 with the exception of technology equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

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

F. Interfund Activity

Interfund transactions are reflected as loans or transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds". These loans are subject to elimination upon consolidation. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All other interfund transactions are treated as transfers. Transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

G. 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).

An approved budget can be amended by the Board and all budget appropriations lapse at year-end.

H. Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

I. Cash, Cash Equivalents and Investments

The Board considers demand deposits, money market accounts, and time deposits that are nonnegotiable, to be cash and cash equivalents, for the governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statement of cash flows.

The District may invest funds in a bank depository selected by the Board, bonds of the United States, or instruments issued by political subdivisions of Kentucky, however, such investments must be approved by the Kentucky Department of Education.

J. Inventories

Inventories are stated at average cost using the first-in, first-out method for both the governmental fund types and proprietary funds.

Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased.

Nonmonetary assistance is reported in the proprietary fund at the market value of the commodities received/used.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*,

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualify for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

L. Restricted Assets

Certain investments of the District's Debt Service Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in a separate account.

M. Accrued and Long-Term Liabilities

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

In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

N. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Committed fund balance

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Education of the Hickman County School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution)

Assigned fund balance

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (Superintendent and Finance Officer) have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

O. Net Position

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

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

P. Estimates

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

Q. Impact of Recently Issued Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows or resources and deferred inflows of resources to ensure consistency in financial reporting. The District has implemented this statement in the year ended June 30, 2014. As a result, prior year “deferred charges” of \$116,268 have been expensed in the prior period adjustment explained in Note 2J. In addition, \$203,926, representing the difference between the reacquisition price and the net carrying amount of the old debt on the 2012 refunding, has been reported as “deferred outflows of resources” and will be recognized as a component of interest expense over the remaining life of the new debt.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the District’s financial statements.

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Deposits

The District maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

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Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year-end, the carrying amount of the District's deposits was \$853,173 and the bank balance was \$1,410,904. Of the District's bank balance, \$1,084,619 was collateralized as discussed above because it was uninsured, while \$326,285 was covered by Federal Deposit Insurance

For purposes of the Statement of Cash Flows, the District considers all investments with a maturity of three months or less when purchased to be cash equivalents.

Reconciliation to Government-wide Statement of Net Position:	
Unrestricted cash	\$ 779,106
Fiduciary fund cash (not included in government-wide statement)	74,066
	<u>\$ 853,172</u>

These amounts are reported in the financial statements, as follows:	
Governmental activities	\$ 716,647
Business-type activities	62,459
Fiduciary funds	74,066
	<u>\$ 853,172</u>

B. Restricted Investments

The District sold a \$455,000 Qualified Zone Academy Bond (QZAB) on June 10, 2003, for the purpose of financing the cost of renovations to the high school gym. On the delivery date an initial cash payment in the amount of \$100,000 was required to be deposited in a Prefunded Escrow Account at Fifth Third Bank in Cincinnati, Ohio. The account has since been moved to The Bank of New York Mellon Trust Company. This prepayment and the annual bond payments of \$25,439, will be deposited in this escrow account, which should earn an amount sufficient to retire the \$455,000 bond principal due on June 10, 2018.

The District's policy regarding investments is discussed in Note 1I. At fiscal year-end, the District had the following investment in the QZAB escrow account:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Percent of Total</u>	<u>Maturities Within 1 Year</u>
Federal Home Loan Bank	\$ <u>420,649</u>	100%	\$ <u>420,649</u>

The District does not have an investment policy for interest rate risk, credit risk, custodial credit risk or concentration of credit risk beyond the requirements of KRS 66.480. For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not

**HICKMAN COUNTY SCHOOL DISTRICT
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be able to recover the value of its investments that are in the possession of an outside party. The Federal Home Loan Bank is exposed to custodial credit risk in that it is uninsured and held by the counterparty's trust department in the District's name.

C. Capital Assets

Changes in the capital assets during the year are summarized below:

<u>Governmental Activities</u>	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Non-depreciable				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Depreciable				
Land improvements	559,549	-	-	559,549
Buildings and improvements	13,767,223	-	-	13,767,223
Technology equipment	720,621	34,671	144,753	610,539
Vehicles	1,087,650	-	-	1,087,650
General equipment	<u>322,504</u>	<u>10,760</u>	<u>2425</u>	<u>330,839</u>
Totals	<u>16,457,547</u>	<u>45,431</u>	<u>147,178</u>	<u>16,355,800</u>
Less: Accumulated depreciation				
Land improvements	288,019	21,182	-	309,201
Buildings and improvements	4,131,385	354,273	-	4,485,658
Technology equipment	511,376	79,371	144,392	446,355
Vehicles	806,244	64,927	-	871,171
General equipment	<u>206,997</u>	<u>15,955</u>	<u>1,980</u>	<u>220,972</u>
Totals	<u>5,944,021</u>	<u>535,708</u>	<u>146,372</u>	<u>6,333,357</u>
Net Book Value	<u>10,513,526</u>	<u>490,277</u>	<u>806</u>	<u>10,022,357</u>
Governmental activities capital assets - net	<u>\$ 10,573,526</u>	<u>\$ 490,277</u>	<u>\$ 806</u>	<u>\$ 10,082,443</u>
 <u>Business-Type Activities</u>				
Depreciable				
Buildings and improvements	\$ 1,035,533	\$ -	\$ -	\$ 1,035,533
Technology equipment	10,169	5,207	842	14,534
Food service equipment	<u>360,747</u>	<u>14,521</u>	<u>-</u>	<u>375,268</u>
Totals	<u>1,406,449</u>	<u>19,728</u>	<u>842</u>	<u>1,425,335</u>
Less: Accumulated depreciation				
Buildings	556,301	22,225	-	578,526
Technology equipment	9,204	1,643	842	10,005
Food service equipment	<u>197,675</u>	<u>21,098</u>	<u>-</u>	<u>218,773</u>
Totals	<u>763,180</u>	<u>44,966</u>	<u>842</u>	<u>807,304</u>
Business-type activities capital assets – net	<u>\$ 643,269</u>	<u>\$ (25,238)</u>	<u>\$ -</u>	<u>\$ 618,031</u>

Depreciation expense has been recorded as a direct expense in the applicable governmental activity functions, as follows:

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Instruction	\$ 71,019
Support services:	
Student	723
Instructional staff	910
District administration	5,444
School administration	3,298
Plant operations and management	394,896
Student transportation	<u>59,418</u>
	<u>\$ 535,708</u>

D. Long-Term Liabilities

The District's debt is the responsibility of the governmental activities. The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
1996	\$ 170,000	5.15% - 5.75%	2017
2003	425,000	1.75% - 2.75%	2015
2003 (QZAB)	455,000	5.00% - 5.06%	2018
2004	3,005,000	2.15% - 4.10%	2014
2008 (Refunding)	1,815,000	2.10% - 3.20%	2017
2008	1,300,000	3.00% - 4.85%	2028
2011 KISTA	396,465	1.50% - 4.30%	2031
2012 (Refunding)	2,185,000	0.50% - 2.125%	2024
2012 KISTA	457,000	2.00% - 3.375%	2032

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

In 1989, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

Changes in the bond issues during the year are summarized below:

<u>Issue</u>	<u>Balance at July 1, 2013</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
1996	\$ 40,000	\$ -	\$ 10,000	\$ 30,000
2003	55,000	-	45,000	10,000
2003 (QZAB)	455,000	-	-	455,000
2004	140,000	-	140,000	-
2008 (Refunding)	1,010,000	-	180,000	830,000

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<u>Issue</u>	<u>Balance at July 1, 2013</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
2008	1,245,000	-	25,000	1,220,000
2011 KISTA	390,465	-	6,000	384,465
2012 (Refunding)	2,095,000	-	60,000	2,035,000
2012 KISTA	<u>457,000</u>	-	<u>6,000</u>	<u>451,000</u>
	<u>\$ 5,887,465</u>	<u>\$ -</u>	<u>\$ 472,000</u>	<u>\$ 5,415,465</u>

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, 2014 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Hickman County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 210,347	\$ 89,066	\$ 244,653	\$ 58,678	\$ 602,744
2016	217,004	82,573	248,996	54,769	603,342
2017	225,379	75,693	252,621	48,875	602,568
2018	687,053	68,186	240,947	43,313	1,039,499
2019	97,285	62,684	214,715	36,370	411,054
2020-2024	558,816	249,429	1,146,184	108,621	2,063,050
2025-2029	709,856	112,139	145,144	27,320	994,459
2030-2033	<u>156,055</u>	<u>12,629</u>	<u>60,410</u>	<u>4,142</u>	<u>233,236</u>
	<u>\$ 2,861,795</u>	<u>\$ 752,399</u>	<u>\$ 2,553,670</u>	<u>\$ 382,088</u>	<u>\$ 6,549,952</u>

The District was assessed \$154,554 by the Kentucky School Board Insurance Trust for workers compensation and property and liability losses. The District has chosen to pay these losses over a seven year period at zero percent interest. Future payments under the assessment as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Insurance Assessment</u>
2015	\$ 53,184
2016	36,289
2017	36,289
2018	7,198
2019	7,198
2020	7,198
2021	<u>7,198</u>
	<u>\$ 154,554</u>

Changes in the long-term liability accounts during the year are summarized below:

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	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due in One Year</u>
Bonds	\$ 5,887,465	\$ -	\$ 472,000	\$ 5,415,465	\$ 465,000
Less unamortized call premium on refunding bond issue	<u>(15,430)</u>	<u>3,632</u>	<u>-</u>	<u>(11,798)</u>	<u>(3,632)</u>
	5,872,035	-	472,000	5,403,667	461,368
Governmental activities					
Accrued sick leave	244,368	-	43,035	201,333	10,339
Insurance assessment	<u>-</u>	<u>154,554</u>	<u>-</u>	<u>154,544</u>	<u>53,184</u>
	<u>\$ 6,116,403</u>	<u>\$ 154,554</u>	<u>\$ 515,035</u>	<u>\$ 5,759,544</u>	<u>\$ 541,871</u>

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The insurance assessment and compensated absences will be liquidated by the General Fund. In the past, these liabilities have been paid each year by the General Fund.

E. Compensated Absences and Accumulated Sick Leave

Certified and classified employees of the District are entitled to payment of 20% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2013. The total amount of accumulated benefits for all employees eligible to retire at June 30, 2014, is \$89,535. A balance of \$33,000 is restricted in the General Fund at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

Accrued sick leave benefits are estimated by the vesting method. This entire future obligation is reported in the government-wide financial statements.

F. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2014 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Construction</u>	<u>Debt Service</u>
Restricted for:						
Sick leave	\$ 33,000	\$ -	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	7,420	-	-	-
Debt service	-	-	-	-	-	420,663
Other	<u>-</u>	<u>-</u>	<u>7,063</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>33,000</u>	<u>-</u>	<u>14,483</u>	<u>-</u>	<u>-</u>	<u>420,663</u>
Assigned for:						
SBDM	<u>30,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>30,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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June 30, 2014

	General	Special Revenue	Capital Outlay	Building	Construction	Debt Service
Unassigned	723,258	-	-	-	-	-
Total fund balance	\$ 786,408	\$ -	\$ 14,483	\$ -	\$ -	\$ 420,663

G. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$125,730 due to the General fund from Special Revenue is a short-term cash flow loan.

Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Community Education	\$ 12,982
General	Special Revenue	KETS	10,995
General	Special Revenue	Gifted Consortium	5,454
Special Revenue	General	Salaries	59,997
Capital Outlay	Construction	Construction	18,000
Capital Outlay	Debt Service	Debt service	45,545
Building Fund	Debt Service	Debt service	255,903

H. Deficit Operating/Fund Balances

The following fund had operations that resulted in a current year deficit of revenues/transfers in over expenditures/transfers out:

Food Service	\$ 22,047
--------------	-----------

I. On-Behalf Payments

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers' Retirement System	\$ 439,745
Health insurance, life insurance, flexible Spending accounts (includes administrative fee)	906,360
Technology	18,965
Debt Service	332,415
	\$ 1,697,485

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The District does not include on-behalf payments in their budgets. The total of these payments, has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

Governmental activities	
General Fund	\$ 1,317,605
Debt Service Fund	332,415
Business-type activities	<u>47,465</u>
	<u>\$ 1,697,485</u>

J. Prior Period Adjustment

Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, described above in Note 1Q, beginning net position has been decreased by \$116,268 from \$5,924,368 to \$5,808,100. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

NOTE 3 – OTHER INFORMATION

A. Retirement Plans

Pension plan

The District contributes to the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS). These are cost-sharing, multiple employer defined benefit plans. KTRS administers retirement and disability annuities, and death and survivor benefits to certified employees and beneficiaries of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.605% of salaries. The Commonwealth of Kentucky is required to contribute 17.900% of salaries for KTRS members hired as critical shortage employees. The federal program for any salaries paid by that program pays the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after

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September 1, 2008, are required to contribute an additional 1% their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$4,835,158. The payroll for employees covered under KTRS was \$3,287,156 and for CERS was \$1,127,062.

The contribution requirement for CERS for the year ended June 30, 2014, was \$271,431 which consisted of \$212,902 from the District and \$58,529 from the employees. The Commonwealth contributed \$439,445 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$100,450, which represents \$44,575 for those employees covered by federal programs, \$6,696 for critical shortage employees and \$49,179 for all KTRS employees.

The three-year trend information for the District's contribution requirement to KTRS AND CERS is as follows:

<u>Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>
6/30/14	\$ 313,352	100%
6/30/13	307,513	100%
6/30/12	298,114	100%

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2013, (the actuarial reports for the year ended June 30, 2014 are not yet available):

	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Underfunded</u> <u>AAL</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>Underfunded</u> <u>Actuarial Liability</u> <u>as Percentage</u> <u>of Covered</u> <u>Payroll</u>
KTRS	\$ 14,962,758	\$ 28,817,232	\$ 13,854,474	51.9%	\$ 3,480,066	398.1%
CERS	7,438,786	12,503,082	5,064,296	60.0%	2,697,950	187.7%

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets. The District also offers employees the option to participate in a defined contribution plan under Internal Revenue Code Sections 403(b) and 457. The District does not contribute to these plans.

Medical insurance plan

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. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the medical

**HICKMAN COUNTY SCHOOL DISTRICT
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June 30, 2014

insurance plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

B. Leases

The District (lessor) entered into a lease on October 16, 2012, with the Hickman County Extension Board and Fiscal Court (lessee). The Hickman County Extension Board will occupy and make certain improvements to a building owned by the District. The estimated cost of these improvements is \$280,000.

The term of the lease is 40 years at an annual rental of \$1. If the District cancels the lease prior to its expiration date of September 21, 2027, it will owe the Hickman County Extension Board a pro rata share of the cost of improvements over the remaining lease term at the date of cancellation.

C. Contingencies and Commitments

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of cash advances, 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.

D. Insurance and Related Activities

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

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E. Litigation

The Board's legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2014.

F. 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. The District purchases general and auto liability, physical damage insurance, errors and omissions, and general liability coverage from Peel & Holland Inc.. The District purchases worker's compensation insurance through Kentucky Employers' Mutual Insurance. The District pays an annual premium to each fund for coverage.

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.

G. COBRA

All terminated employees have been notified of available continuing insurance coverage as mandated under COBRA.

H. Subsequent Events

The District executed a KISTA lease on August 1, 2014, to finance a bus. The principal balance of the lease is \$95,135.

REQUIRED SUPPLEMENTARY INFORMATION

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Taxes				
Property	\$ 1,082,000	\$ 1,087,000	\$ 1,292,298	\$ 205,298
Motor vehicle	150,000	150,000	159,054	9,054
Utilities	275,000	295,000	306,002	11,002
Other	260,000	260,000	268,271	8,271
Earnings on investments	3,000	3,000	2,255	(745)
Other local revenues	44,500	26,500	69,021	42,521
Intergovernmental - State	3,020,500	3,021,500	3,190,987	169,487
Intergovernmental - Indirect Federal	20,000	20,000	16,309	(3,691)
Total revenues	<u>4,855,000</u>	<u>4,863,000</u>	<u>5,304,197</u>	<u>441,197</u>
Expenditures				
Current				
Instruction	2,779,433	2,821,685	2,756,967	64,718
Support Services				
Student	290,539	302,785	238,064	64,721
Instructional staff	205,549	214,899	221,410	(6,511)
District administration	381,243	424,868	457,050	(32,182)
School administration	285,706	261,233	252,943	8,290
Business	214,047	213,183	215,775	(2,592)
Plant operations and management	818,000	795,723	727,107	68,616
Student transportation	393,696	423,538	432,846	(9,308)
Non-instructional services	710	710	143	567
Contingency	121,077	164,715	-	164,715
Total expenditures	<u>5,490,000</u>	<u>5,623,339</u>	<u>5,302,305</u>	<u>321,034</u>
Excess (deficit) of revenues over expenditures	<u>(635,000)</u>	<u>(760,339)</u>	<u>1,892</u>	<u>762,231</u>
Other Financing Sources (Uses)				
Compensation for loss of assets	-	7,000	2,610	(4,390)
Transfers in	60,000	60,000	59,997	(3)
Transfers out	(25,000)	(25,000)	(29,431)	(4,431)
Total other financing sources (uses)	<u>35,000</u>	<u>42,000</u>	<u>33,176</u>	<u>(8,824)</u>
Net change in fund balance	(600,000)	(718,339)	35,068	753,407
Fund balance, beginning of year	600,000	718,339	751,340	33,001
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 786,408</u>	<u>\$ 786,408</u>
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 5,304,197	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>1,317,605</u>
Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 6,621,802</u>
Outflows/expenditures:				
Actual amounts (budgetary basis)			\$ 5,302,305	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>1,317,605</u>
Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 6,619,910</u>

See independent auditor's report.

HICKMAN COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Other local revenue	\$ 6,002	\$ 6,002	\$ 132,985	\$ 126,983
Intergovernmental - State	331,555	332,252	329,636	(2,616)
Intergovernmental - Indirect Federal	<u>529,487</u>	<u>613,611</u>	<u>624,356</u>	<u>10,745</u>
Total revenues	<u>867,044</u>	<u>951,865</u>	<u>1,086,977</u>	<u>135,112</u>
Expenditures				
Current				
Instruction	695,059	755,482	887,883	(132,401)
Support Services				
Instructional staff	29,145	36,239	38,563	(2,324)
Student transportation	-	16,607	20,163	(3,556)
Non-instructional services	<u>107,840</u>	<u>108,537</u>	<u>109,802</u>	<u>(1,265)</u>
Total expenditures	<u>832,044</u>	<u>916,865</u>	<u>1,056,411</u>	<u>(139,546)</u>
Excess (deficit) of revenues over expenditures	<u>35,000</u>	<u>35,000</u>	<u>30,566</u>	<u>(4,434)</u>
Other Financing Sources (Uses)				
Transfers in	25,000	25,000	29,431	4,431
Transfers out	<u>(60,000)</u>	<u>(60,000)</u>	<u>(59,997)</u>	<u>3</u>
Total other financing sources (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(30,566)</u>	<u>4,434</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

INTERNAL CONTROL AND COMPLIANCE SECTION

**HICKMAN COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 14,483	\$ -	\$ -	\$ 14,483
Total assets	<u>\$ 14,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,483</u>
Liabilities and Fund Balances				
Fund Balances				
Restricted	\$ 14,483	\$ -	\$ -	\$ 14,483
Total fund balances	<u>14,483</u>	<u>-</u>	<u>-</u>	<u>14,483</u>
Total liabilities and fund balances	<u>\$ 14,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,483</u>

See independent auditor's report.

HICKMAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Capital Outlay Fund	Building Fund	Construction Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 133,659	\$ -	\$ 133,659
Motor vehicle	-	19,230	-	19,230
Earnings on investments	13	-	-	13
Intergovernmental - State	70,595	103,014	-	173,609
Total revenues	70,608	255,903	-	326,511
Expenditures				
Facilities acquisition and construction	-	-	18,000	18,000
Total expenditures	-	-	18,000	18,000
Excess (deficit) of revenues over expenditures	70,608	255,903	(18,000)	308,511
Other Financing Sources (Uses)				
Transfers in	-	-	18,000	18,000
Transfers out	(63,545)	(255,903)	-	(319,448)
Total other financing sources (uses)	(63,545)	(255,903)	18,000	(301,448)
Net Change in fund balances	7,063	-	-	7,063
Fund balances, beginning of year	7,420	-	-	7,420
Fund balances, end of year	\$ 14,483	\$ -	\$ -	\$ 14,483

See independent auditor's report.

**HICKMAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS**

For the Year Ended June 30, 2014

<u>Fund</u>	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
Activity Funds				
Hickman County High School:				
Athletic	\$ 5,533	\$ 45,654	\$ 37,317	\$ 13,870
Art	2,120	620	2,108	632
Music	157	-	-	157
Beta Club - High School	772	4,973	4,602	1,143
Science Club - High School	4	4,308	2,167	2,145
Drama Club	1,286	828	863	1,251
FBLA	1,759	9,561	9,895	1,425
FFA	541	32,090	31,582	1,049
FCCLA	5	2,693	2,504	194
General	255	25,880	22,690	3,445
Spanish Club	64	32	95	1
H-Club	46	706	573	179
FCS	1	1,130	1,061	70
Beta Club - Junior High	289	3,459	2,973	775
Junior Class	365	7,859	6,903	1,321
Student Council - High School	381	1,116	1,016	481
Textbook	94	1,780	75	1,799
Academic Club - High School	130	340	225	245
Academic Club - Junior High	124	580	272	432
Project Graduation	1,544	43,239	40,954	3,829
Journalism	3,848	26,225	26,154	3,919
Cheerleaders - High School	7,619	22,224	28,371	1,472
FCA	318	-	-	318
Library	196	208	263	141
Community Education	982	2,608	2,979	611
Scholarship - HCHS Outstanding	-	1,000	1,000	-
Flower Fund	71	136	167	40
History Club	3	-	-	3
Science Club - Junior High	192	1,363	1,199	356
FEA	673	858	1,105	426
National Scholastic Sportsman	36	480	364	152
FFA - Greenhouse	1,272	1,495	2,102	665
Baseball	1,056	13,876	11,048	3,884
Softball	3,253	9,702	8,196	4,759
Volleyball	497	9,095	8,400	1,192
Pep Club	527	-	-	527
Flight	385	185	168	402
Military Club	47	355	263	139
HCHS Alumni Scholarship	270	1,772	1,673	369
Green Team	23	-	-	23
Test Assistance Shiloh	148	-	-	148

See independent auditor's report.

**HICKMAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS**

For the Year Ended June 30, 2014

<u>Fund</u>	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
Four Rivers Scholarship	\$ 472	\$ -	\$ 346	\$ 126
Kapps	6	4,813	3,642	1,177
Hickman Co. Retired Scholarship	-	700	700	-
Boys Varsity Basketball	137	7,326	7,233	230
High School GV Basketball	3	1,155	1,121	37
Middle School Boys Basketball	163	1,969	2,132	-
Middle School Girls Basketball	10	1,941	1,887	64
Retirement Reception	4	-	-	4
Cross Country	-	331	331	-
Golf	-	1,272	803	469
Field Trip	-	1,337	1,023	314
James H. Phillips Scholarship	-	250	-	250
	<u>37,681</u>	<u>299,524</u>	<u>280,545</u>	<u>56,660</u>
Less: inter-fund transfers	-	5,796	5,796	-
Total Hickman County High School	37,681	293,728	274,749	56,660
Hickman County Elementary School	15,740	37,904	37,666	15,978
Total activity funds	53,421	331,632	312,415	72,638
Early Childhood Council	3,523	28,000	30,095	1,428
Total agency funds	\$ <u>56,944</u>	\$ <u>359,632</u>	\$ <u>342,510</u>	\$ <u>74,066</u>

See independent auditor's report.

HICKMAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed Through State Department of Education				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	\$ 213,790	\$ 8,677
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	192,350	185,245
Title I Grants to Local Educational Agencies	84.010	220-4500-3102D	-	-
Total Title I Cluster			<u>406,140</u>	<u>193,922</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3373	172,038	24,047
Special Education_Grants to States	84.027	220-4500-3374	163,352	141,275
		Sub-total	<u>335,390</u>	<u>165,322</u>
Special Education_Preschool Grants	84.173	220-4500-3433	19,037	1,563
Special Education_Preschool Grants	84.173	220-4500-3434	18,937	16,568
		Sub-total	<u>37,974</u>	<u>18,131</u>
Total Special Education Cluster			<u>373,364</u>	<u>183,453</u>
Career and Technical Education Basic Grants to States	84.048	220-4700-3484	7,500	7,500
			<u>7,500</u>	<u>7,500</u>
Twenty-First Century (Flight)	84.287	220-4500-5502	151,000	32,822
Twenty-First Century (Supplemental Funds)	84.287	220-4500-5503U	5,000	2,885
Twenty-First Century (Flight)	84.287	220-4500-5503	112,500	86,344
			<u>268,500</u>	<u>122,051</u>
Rural and Low Income Education	84.358B	220-4500-3504	13,578	13,578
Improving Teacher Quality State Grants	84.367	220-4500-4013	47,517	3,076
Improving Teacher Quality State Grants	84.367	220-4500-4014	45,394	38,168
			<u>92,911</u>	<u>41,244</u>
Race To The Top	84.413	220-4500-4521	8,847	2,609
Total U.S. Department of Education			<u>1,170,840</u>	<u>564,357</u>
U.S. Department of Agriculture				
Passed Through State Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	106,930	106,930
National School Lunch Program - Donated Commodities	10.555	510-4950	27,880	27,880
National School Lunch Program	10.555	510-4500	264,357	264,357
Summer Food Service Program for Children	10.559	510-4500	4,978	4,978
Total U.S. Department of Agriculture			<u>404,145</u>	<u>404,145</u>
U.S. Department of Health and Human Resources				
Passed Through Murray Board of Education				
Head Start	93.600	220-4700-6554	60,000	59,997
Total U.S. Department of Health and Human Resources			<u>60,000</u>	<u>59,997</u>
Total federal awards			\$ 1,634,985	\$ 1,028,499
Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures				
Total expenditures of federal awards				\$ 1,028,499
Total expenditures of state and local awards				432,057
Expenditure of federal awards in the food service fund				<u>(404,145)</u>
Total expenditures as reported in the special revenue fund on the statement of revenues, expenditures and changes in fund balance - governmental funds				\$ 1,056,411

*See independent auditor's report.
The accompanying notes are an integral part of this schedule.*

HICKMAN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hickman 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 Hickman County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hickman County School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Kentucky State Committee for School District Audits
Members of the Hickman County Board of Education
Clinton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hickman 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 Hickman County School District's basic financial statements and have issued our report thereon dated October 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hickman 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 Hickman County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hickman County School District's internal control.

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

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 Hickman 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*.

We noted a certain matter that we reported to management of the District in a separate letter dated October 2, 2014, as required by the auditor's contract with the Kentucky Department of Education.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Union City, Tennessee
October 2, 2014

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**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Hickman County Board of Education
Clinton, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Hickman 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 Hickman County School District's major federal programs for the year ended June 30, 2014. Hickman 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 Hickman 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 Hickman 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 Hickman County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Hickman 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 Hickman 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hickman 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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.

Alexander Thompson Arnold PLLC

Union City, Tennessee
October 2, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HICKMAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

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? 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? 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 OMB Circular A-133? yes x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Cluster
84.027; 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? x yes no

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINT

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Casey Henderson, Superintendent
Hickman County Board of Education
Clinton, Kentucky

In planning and performing our audit of the financial statements of Hickman 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 other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 2, 2014, on the financial statements of Hickman County School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Alexander Thompson Arnold, PLLC

Union City, Tennessee
October 2, 2014

**HICKMAN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**

June 30, 2014

MANAGEMENT LETTER POINTS

- I. **Condition:** A lack of segregation of duties related to user access within the District's MUNIS system. Certain users who authorize transactions and have custody of assets within the organization are also superusers of the MUNIS accounting software.

Criteria: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement AU-C Section 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. Segregation of duties is a basic component of internal control and is referenced in the above professional standard.

Cause: Due to the limited number of available staff, user rights within the system for certain employees include unlimited access to all modules in MUNIS.

Effect: Unlimited access within the MUNIS system paired with users who authorize transactions and have custody of assets in the organization provide opportunity for manipulation of accounting records and misappropriation of assets.

Recommendation: Superusers should not be granted the authority to authorize transactions.

Response: Due to the frequent need to perform functions only available to superusers the District accepts the risks described above.

- II. **Condition:** Credit card charges are not properly approved.

Criteria: Consideration of Fraud in a Financial Statement Audit AU-C 240 addresses the auditor's responsibility relating to fraud in an audit of financial statements. Monitoring by those charged with governance is an important component in preventing and detecting fraud and is referenced in the above professional standard.

Cause: Management was unaware of the significant fraud risk in this area.

Effect: Increased likelihood of misappropriation of assets.

Recommendation: Implement the purchase order system used with all other cash disbursements in the District and add Superintendent review of credit card statements.

Response: Management agrees with the above recommendation.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**HICKMAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
June 30, 2014

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

None