SCIENCE HILL INDEPENDENT SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 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
My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the independent Auditor's Contract – General Audit Requirements , Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 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 three and four and 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 17, 2014 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC
Somerset, Kentucky
October 17, 2014

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2014
(Unaudited)

Management of the Science Hill Independent School District (District) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2014. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

The beginning unreserved general fund balance for the District was $ 653,886.

The District's outstanding bond principal is $2,967,758 at the end of fiscal year 2014.

The majority of district revenues were derived from state sources (76%). Regular instruction, student support services, instructional support services and school and district administration account for 77% of the District's expenditures. The District's remaining expenditures include pupil transportation (4%), maintenance and operations (8.0%) and debt service (7.6%).

The District's unrestricted operating fund (General Fund) had $2,525,363 in revenues, excluding on-behalf payments from the Commonwealth. Those revenues consist mainly of ad valorem taxes, SEEK funding and utility tax receipts.

District-Wide Financial Statements

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

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

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

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

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

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

Condensed Comparative Data

	FY 2013	FY 2014
General fund revenues	$ 3,298,055	$ 3,180,916
General fund expenses	3,301,814	3,387,133
Cash (district-wide)	634,347	561,154
Land, building and fixed assets, net	5,637,735	5,430,975
Bond obligations	4,099,092	2,967,758
Fund balance	653,886	529,307

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

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 530,939	$ 30,215	$ 561,154
Accounts receivable	20,688	-	20,688
Inventories for consumption		6,441	6,441
Capital assets:			
Land	51,625	-	51,625
Land improvements	274,355	-	274,355
Other capital assets, net of depreciation	4,947,734	157,261	5,104,995
TOTAL ASSETS	$ 5,825,341	$ 193,917	$ 6,019,258
LIABILITIES			
Short-term liabilities			
Accounts payable	$ 22,321	$ -	$ 22,321
Long-term liabilities			
Due or payable within one year			
Bond obligations	179,254	-	179,254
Due or payable after one year			
Bond obligations	2,788,504	-	2,788,504
TOTAL LIABILITIES	2,990,079	-	2,990,079
NET POSITION			
Net investment in capital assets	2,305,956	157,261	2,463,217
Nonspendable			
Assigned for accrued sick leave	67,069	-	67,069
Spendable - unassigned	462,237		462,237
Unrestricted	-	36,656	36,656
TOTAL NET POSITION	$ 2,835,262	$ 193,917	$ 3,029,179

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2014

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	$ 2,457,388				$ (2,457,388)		$ (2,457,388)
Student support services	239,055				(239,055)		(239,055)
Staff support services	140,045				(140,045)		(140,045)
District administration	316,414				(316,414)		(316,414)
School administration	85,729				(85,729)		(85,729)
Business support services	122,036				(122,036)		(122,036)
Plant operation and maintenance	403,485				(403,485)		(403,485)
Student transportation	172,842				(172,842)		(172,842)
Community service	36,191				(36,191)		(36,191)
Facility acquision/construction	43,151				(43,151)		(43,151)
Debt service	384,332			371,778	(12,554)		(12,554)
Total governmental activities	4,400,668				(4,028,890)		(4,028,890)
Business-type activities							
Food service	299,391	108,119	200,797	-	-	9,525	9,525
Total business-type activities	299,391	108,119	200,797	-	-	9,525	9,525
Total school district	$ 4,700,059	$ 108,119	$ 200,797	$ 371,778	$ (4,028,890)	9,525	(4,019,365)
General revenues:							
Taxes					557,349	-	557,349
State aid - formula grants					3,240,996	-	3,240,996
Investment earnings					9,383	-	9,383
Miscellaneous					81,638	(13,321)	68,317
Total general and special revenues					3,889,366	(13,321)	3,876,045
Change in net assets					(139,524)	(3,796)	(143,320)
Net position - July 1, 2013					2,974,786	197,713	3,172,499
Net position - June 30, 2014					$ 2,835,262	$ 193,917	$ 3,029,179

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	GENERAL FUND	SPECIAL REVENUE	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 534,766	$ (3,827)	$ -	$ 530,939
Accounts receivable	16,861	3,827	-	20,688
TOTAL ASSETS	$ 551,627	$ -	$ -	$ 551,627
LIABILITIES AND FUND BALANCES				
Accounts payable	22,321	-	-	22,321
TOTAL LIABILITIES	22,321	-	-	22,321
FUND BALANCE				
Restricted for:				
Accrued sick leave	67,069	-	-	67,069
Unassigned	462,237	-	-	462,237
TOTAL FUND BALANCES	529,306	-	-	529,306
TOTAL LIABILITIES AND FUND BALANCES	$ 551,627	$ -	$ -	$ 551,627

The accompanying notes are an integral part of these statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION

June 30, 2014

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:		
Total governmental fund balance		$ 529,306
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	8,037,579	
Accumulated depreciation	(2,763,865)	5,273,714
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,967,758)
Total net position - governmental		$ 2,835,262

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	$ 557,439	$ -	$ 100,982	$ 658,421
Earnings on investments	9,383	-	-	9,383
State sources	2,573,958	159,926	270,796	3,004,680
Federal sources	9,258	227,058	-	236,316
Other sources	30,879	-	-	30,879
Total revenues	3,180,916	386,984	371,778	3,939,678
Expenditures				
Instructional	2,082,021	286,232	-	2,368,253
Student support services	178,312	58,004	-	236,316
Staff support services	125,073	1,028	-	126,101
District administration	314,631	-	-	314,631
School administration	85,729	-	-	85,729
Business support services	109,105	12,635	-	121,740
Plant operation/maintenance	319,009	-	-	319,009
Student transportation	165,986	-	-	165,986
Community service	-	36,191	-	36,191
Debt service	7,267	-	296,355	303,622
Total expenditures	3,387,133	394,090	296,355	4,077,578
Excess (deficit) of revenues over expenditures	(206,217)	(7,106)	75,423	(137,900)
Other financing sources (uses):				
Operating transfers in	88,744	7,106	290,941	386,791
Operating transfers out	(7,106)	-	(366,364)	(373,470)
Total other financing sources (uses)	81,638	7,106	(75,423)	13,321
Net change in fund balances	(124,579)	-	-	(124,579)
Fund balances July 1, 2013	653,886	-	-	653,886
Fund balances June 30, 2014	$ 529,307	$ -	$ -	$ 529,307

The accompanying notes are an integral part of these statements.

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

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

Net changes - governmental funds:	$	(124,579)
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.		(199,226)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilites and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Principal paid		184,281
Changes in net position - governmental funds	$	(139,524)

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2014

	CAPITAL OUTLAY	BUILDING FUND	CONSTRUCTION FUND	TOTAL
ASSETS				
Cash and cash equivalents	$ -	$ -	$ -	$ -
TOTAL ASSETS	-	-	-	-
LIABILITIES				-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Unrestricted	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCE	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	CAPITAL OUTLAY	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOV'T FUNDS
REVENUES				
Taxes	$ -	$ 100,982	$ -	$ 100,982
State sources	44,408	220,974	5,414	270,796
Total revenues	44,408	321,956	5,414	371,778
EXPENDITURES				
Debt service	-	-	296,355	296,355
Total expenditures	-	-	296,355	296,355
Excess (deficit) of revenues over expenditures	44,408	321,956	(290,941)	75,423
Other financing sources (uses):				
Operating transfers out	(44,408)	(321,956)	-	(366,364)
Operating transfers in	-	-	290,941	290,941
Total other financing sources (uses)	(44,408)	(321,956)	290,941	(75,423)
Net change in fund balance	-	-	-	-
Fund balance July 1, 2013	-	-	-	-
Fund balance June 30, 2014	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014

	ENTERPRISE FUNDS
	FOOD SERVICE
ASSETS	
Current assets	
Cash and cash equivalents	$ 30,215
Accounts receivable	-
Inventories for consumption	6,441
Total current assets	36,656
Noncurrent assets	
Buildings and improvements	243,882
Furniture and equipment	98,599
Accumulated depreciation	(185,220)
Total noncurrent assets	157,261
TOTAL ASSETS	$ 193,917
LIABILITIES	
Total current liabilities	$ -
Total noncurrent liabilities	-
TOTAL LIABILITIES	-
NET POSITION	
Invested in assets, net of debt	157,261
Unrestricted	36,656
TOTAL NET POSITION	$ 193,917

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2014

	ENTERPRISE FUNDS
	FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	$ 108,119
Total operating revenues	108,119
OPERATING EXPENSES	
Food service operations	299,391
Total operating expenses	299,391
Operating income (loss)	(191,272)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	176,969
State grants	23,828
Fund transfers	(13,321)
Total nonoperating revenues	187,476
Change in net position	(3,796)
Net position July 1, 2013	197,713
Net position June 30, 2014	$ 193,917

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2014

Cash flows from operating activities:		
Cash received from lunchroom sales	$	108,199
Cash received from federal and state reimbursements		214,854
Cash payments to employees for services		(138,039)
Cash payments to suppliers		(148,907)
Operating transfers		(13,321)
Net cash provided by operating activities		22,786
Net increase in cash equivalents		22,786
Cash and cash equivalents July 1, 2013		7,429
Cash and cash equivalents June 30, 2014	$	30,215
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$	(3,796)
Depreciation		7,532
Effect of Increases and Decreases in Current Assets and Liabilities:		
Accounts receivable		14,057
Inventory		4,993
Net cash provided by operating activities	$	22,786

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Funds
ASSETS	
Cash and cash equivalents	$ 17,786
TOTAL ASSETS	17,786
LIABILITIES	-
NET POSITION	$ 17,786

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIDUCIARY FUNDS
for the year ended June 30, 2014

	ACTIVITY FUNDS
REVENUES	
Revenues from student activities	$ 86,160
Total revenues	86,160
EXPENSES	
Student activities	75,875
Change in net position	10,285
Net position July 1, 2013	7,501
Net position June 30, 2014	$ 17,786

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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

District-Wide and Fund Financial Statements

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

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

I. Governmental Fund Types

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

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

C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Debt Service Fund

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

III. Proprietary Funds (Enterprise Fund)

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

IV. Fiduciary Fund Type

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

V. Property Taxes

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

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

Budgetary Process

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

Cash and Cash Equivalents

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

Inventories

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

Encumbrances

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

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2014. The cash balances on June 30, 2014 have been reduced by the outstanding payroll checks.

Estimates

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

Fund Balances

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

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was $782,176. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, $250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2014 exclusive of activity and debt service funds, consisted of the following:

Cumberland Security Bank	Operating Account	$ 561,154

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

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

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

At July 1, 2013 total indebtedness amounted to $3,152,039. With no additions to long-term debt and timely principal and interest reductions, indebtedness at June 30, 2014 totaled $ 2,967,758.

Year	2006R		2007		2011		Annual
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2015	10,000	22,120	79,254	80,965	90,000	3,555	285,894
2016	10,000	21,725	79,226	77,993	100,000	2,315	291,259
2017	10,000	21,330	89,197	75,022	95,000	808	291,357
2018	50,000	20,145	149,167	71,677			290,989
2019	55,000	18,071	154,135	66,009			293,215
2020	55,000	15,899	164,102	60,152			295,153
2021	50,000	13,825	174,068	53,916			291,809
2022	55,000	11,751	179,033	47,301			293,085
2023	60,000	9,480	183,995	40,409			293,884
2024	65,000	7,011	188,957	33,325			294,293
2025	70,000	4,345	193,917	26,050			294,312
2026	75,000	1,481	198,875	18,584			293,940
2027			283,832	10,928			294,760
	$ 565,000	$ 167,183	$ 2,117,758	$ 662,331	$ 285,000	$ 6,678	$ 3,803,950

NOTE D - RETIREMENT PLANS

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

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

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

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

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

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

NOTE E - CONTINGENCIES

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

NOTE F - INSURANCE AND RELATED ACTIVITIES

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

NOTE G - LUNCHROOM ACCOUNT/COMMODITIES

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

NOTE H - RISK MANAGEMENT

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

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a $60 million deficit in the Trust's general liability and workers' compensation pools. The District opted to pay their assessment in installments, with the first payment being due in August 2014. The amount due by the District is included in general fund accounts payable for the year ended June 30, 2014 and will be paid in three annual installments.

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

NOTE H - RISK MANAGEMENT, continued

NOTE I – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is detailed on the following page.

NOTE J – ON BEHALF PAYMENTS

The Commonwealth of Kentucky indirectly contributes funds of varying benefits to the District. These funds, known as "on-behalf payments" are represented as revenue from state sources in the appropriate financial statements. These funds, totaling $ 694,795 for the year ended June 30, 2014, are not budgeted by the District. Corresponding amounts are entered to reflect the appropriate expense for the contributed funds, including but not limited to retirement, insurance and other benefits.

NOTE K – DEFICIT FUND BALANCES

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

General fund	$ (206,217)
Special revenue fund	$ (7,106)

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

CAPITAL ASSET NOTE DISCLOSURE

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES				
Land and improvements	325,980	-	-	325,980
Buildings and improvements	6,851,141	-	-	6,851,141
Technology equipment	295,185	-	-	295,185
Vehicles	370,838	-	-	370,838
General equipment	194,434	-	-	194,434
Totals at historical cost	8,037,578	-	-	8,037,578
Less accumulated depreciation for:				
Land and improvements	176,272	13,023	-	189,295
Buildings and improvements	1,677,650	139,968	-	1,817,618
Technology equipment	232,764	24,650	-	257,414
Vehicles	356,166	6,855	-	363,021
General equipment	121,784	14,733	-	136,517
Total accumulated depreciation	2,564,636	199,229		2,763,865
GOVERNMENTAL ACTIVITIES CAPITAL NET	$ 5,472,942	$ (199,229)		$ 5,273,713
PROPRIETARY ACTIVITIES				
Buildings and improvements	243,882	-	-	243,882
Technology equipment	3,090	-	-	3,090
General equipment	95,509	8,754	-	104,263
Totals at historical cost	342,481	8,754		351,235
Less accumulated depreciation for:				
Buildings and improvements	99,991	4,878	-	104,869
Technology equipment	3,090	-	-	3,090
General equipment	74,607	2,654	-	77,261
Total accumulated depreciation	177,688	7,532	-	185,220
PROPRIETARY ACTIVITIES CAPITAL NET	$ 164,793			166,015

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	$ 89,135
Student support services	2,739
Staff support services	13,944
District administration	1,783
Business support services	296
Plant operation/maintenance	84,476
Student transportation	6,856
Total	$ 199,229

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2014

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	$ 589,828	$ 557,439	$ (32,389)
Earnings on investment	8,000	9,383	1,383
State sources	1,943,279	2,573,958	630,679
Federal sources	9,000	9,258	258
Other sources	7,040	30,879	23,839
Total revenues	2,557,147	3,180,917	623,770
Expenditures			
Instructional	1,739,929	2,082,021	(342,092)
Student support services	122,483	178,312	(55,829)
Staff support services	112,096	125,073	(12,977)
District administration	298,813	314,631	(15,818)
School administration	70,620	85,729	(15,109)
Business support services	69,018	109,105	(40,087)
Plant operation/maintenance	219,406	319,009	(99,603)
Student transportation	156,484	165,986	(9,502)
Debt service	6,267	7,268	(1,001)
Contingency	383,926	-	383,926
Total expenditures	3,179,042	3,387,134	(208,092)
Excess of revenues over expenditures	(621,895)	(206,217)	415,678
Other financing sources (uses)			
Operating transfers in	80,309	88,744	8,435
Operating transfers out	(8,000)	(7,106)	894
Total other financing sources (uses)	72,309	81,638	9,329
Net increase (decrease) in fund balance	(549,586)	(124,579)	425,007
Fund balance July 1, 2013	549,586	653,886	104,300
Fund balance June 30, 2014	$ -	$ 529,307	$ 529,307

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2014

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES			
State sources	$ 160,686	$ 159,926	$ (760)
Federal sources	318,300	227,058	(91,242)
Total revenues	478,986	386,984	(92,002)
EXPENDITURES			
Instructional	339,359	286,232	53,127
Student support services	96,495	58,004	38,491
Staff support services	1,019	1,028	(9)
Business support services	13,108	12,635	48
Student transportation	948		
Community services	36,057	36,191	(134)
Total expenditures	486,986	394,090	92,896
Excess (deficit) of revenues over expenditures	(8,000)	(7,106)	(894)
Other financing sources (uses):			
Operating transfers out	-	-	
Operating transfers in	8,000	7,106	894
Total other financing sources (uses)	8,000	7,106	894
Net change in fund balance	-	-	-
Fund balance July 1, 2013	-	-	-
Fund balance June 30, 2014	$ -	$ -	$ -

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT

Science Hill, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES

SCHOOL ACTIVITY FUNDS

June 30, 2014

	Beginning Cash July 1, 2013	Receipts	Disbursements	Ending Cash June 30, 2014
8th Grade	697	10,714	10,552	859
Archery	1,305	3,882	3,634	1,553
Baseball	-	2,999	2,999	-
Beta	387	887	1,189	85
Boys and girls basketball	1,375	16,288	13,960	3,703
Cheerleaders	1,040	1,720	2,750	10
Cookbooks	-			-
Dance	343	3,378	3,491	230
Drama and annuals	-	8,401	4,227	4,174
General fund	2,354	22,564	18,748	6,170
Music	-	6,006	5,653	353
Pepsi	-	1,071	447	624
Softball	-	2,965	2,965	-
Field trips	-	2,857	2,832	25
Soccer	-	1,212	1,212	-
		84,944	74,659	
Inter-fund transfers	-	(1,906)	(1,906)	-
Totals	$ 7,501	$ 83,038	$ 72,753	$ 17,786

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

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract –Electronic Submission,* the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued my report thereon dated October 17, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
October 17, 2014

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

There are no prior audit findings.

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

MANAGEMENT LETTER

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

In planning and performing my audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2014, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, during my audit, I became aware of some matters that are opportunities to strengthen internal controls and operate in a more efficient manner.

Current Year Conditions
Condition 1:
Statement of Condition: Vendor payments from the Activity Fund are not being approved by a responsible party.
Criteria for Condition: Activity fund expenses must be approved by either the principal or activity fund sponsor.
Effect of the Condition: Because approvals are not indicated on vendor invoices, it is difficult to determine if expenses are appropriate.
Recommendation: The principal or activity fund sponsor must indicate approval of all invoices.
Comment: Management will implement the recommendation.

Condition 2:
Statement of Condition: Activity fund revenues are not being receipted properly.
Criteria for Condition: All revenues should be receipted in an orderly fashion to ensure accountability of student funds.
Effect of the Condition: Because revenues are not properly receipted, student funds could be misplaced or misapplied.
Recommendation: All activity fund receipts should be receipted in an orderly fashion.
Comment: Management will implement the recommendation.

These recommendations were included in the June 30, 2013 report. This letter does not affect my report dated October 17, 2014 on the financial statements of Science Hill Independent School District.
I wish to thank the personnel for their support and assistance during the audit.

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

Sincerely,

Barry D. Daulton, CPA, PSC