

HANCOCK COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

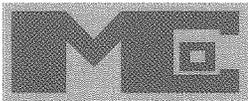
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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Hancock County School District as of June 30, 2015, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 4 through 11, 45 through 46, and 47 through 52 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky

November 11, 2015

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) Year ended June 30, 2015

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending General Fund balance on June 30, 2015 was \$3,737,697. Of this amount, \$1,252,389 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$2,485,308.
- Property tax rates were set by the Board at 58.0 cents and the motor vehicle tax rate was set at 40.0 cents for the 2014-15 school year.
- The General Fund had \$12.3 million in revenue excluding state on-behalf payments which primarily consists of SEEK (state funding), property, motor vehicle and utility taxes. Excluding interfund transfers and state on-behalf payments there were \$11.7 million in General Fund expenditures.
- District certified and classified staff salary scales received a 1% increase with the exception of bus drivers which received a 2% increase.
- A total of \$47,356 was paid in earned sick leave to those who retired during or at the end of the 2014-15 school year by the General Fund.
- The guaranteed SEEK base was increased by \$84 per student over FY14 which makes the per pupil funding \$3,911 per pupil. The assessment amount for our county increased by approximately \$7.1 million and our prior year end of year AADA increased by 31 students. The District observed little growth in our home and hospital count, exceptional child count, and transportation count. Overall the District had an increase in SEEK revenue of \$76,337 during the FY15 school year.
- Lewisport Shopping Center was purchased in 2011 and has served as our vocational center for Hancock County High School. We received revenue in the amount of \$60,455 in rental income from the shopping center tenants.

- The Board approved to supply all students at Hancock County High School with iPads beginning with the 2011-12 school year. The Board entered into a 3-year lease with Apple Computer at the yearly cost of \$90,471 with a final cost of \$1.00 per iPad to purchase them at the end of the lease. Five hundred student iPads were leased through this agreement. This original lease was completed at the end of the FY14 school year. These original iPads were moved to Hancock County Middle School at the beginning of the FY15 school year and the district entered into another 3-year lease for new iPads for Hancock County High School. Five hundred and fifty four iPads were leased on through this agreement and the yearly lease payment is \$90,017.
- The Board continued their participation in the Advanced Kentucky AP Program at Hancock County High School for the 2014-15 school year.
- The District continues to provide additional services to our students by securing grants each year. These grants provide additional funds for staffing and programs that would not be available to students if the District did not secure these available monies. The District strives to secure all resources that are available to provide resources to promote success in our students and to skill enhancements to our staff.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$7.1 million as of June 30, 2015.

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

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

NET POSITION FOR THE PERIOD ENDING JUNE 30, 2015

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

| | Governmental | | Business-Type | | Total | |
|--|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Current Assets | 5,202,631 | 4,312,668 | 283,233 | 325,725 | 5,485,864 | 4,638,393 |
| Noncurrent Assets | 19,502,869 | 19,058,055 | 281,154 | 269,832 | 19,784,023 | 19,327,887 |
| TOTAL ASSETS | 24,705,500 | 23,370,723 | 564,387 | 595,557 | 25,269,887 | 23,966,280 |
| DEFERRED OUTFLOWS OF RESOURCES | 1,184,270 | 807,567 | - | - | 1,184,270 | 807,567 |
| Current Liabilities | 1,666,004 | 1,490,586 | - | - | 1,666,004 | 1,490,586 |
| Noncurrent Liabilities | 17,325,747 | 13,850,235 | - | - | 17,325,747 | 13,850,235 |
| TOTAL LIABILITIES | 18,991,751 | 15,340,821 | - | - | 18,991,751 | 15,340,821 |
| DEFERRED INFLOWS OF RESOURCES | 376,000 | - | - | - | 376,000 | - |
| Net Position: | | | | | | |
| Investment in capital assets (net of debt) | 4,780,182 | 4,552,613 | 281,154 | 269,832 | 5,061,336 | 4,822,445 |
| Restricted for: | | | | | | |
| Capital Projects | 991,400 | 536,896 | - | - | 991,400 | 536,896 |
| Other Purposes | - | - | - | - | - | - |
| Unrestricted | 750,437 | 3,747,960 | 283,233 | 325,725 | 1,033,670 | 4,073,685 |
| TOTAL NET POSITION | 6,522,019 | 8,837,469 | 564,387 | 595,557 | 7,086,406 | 9,433,026 |

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Comments on Budget Comparisons

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

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

- The fringe benefit rate that increased the most in 2014-15 was the amount the Board has to pay for KTRS. The rate change from 1.5% to 2.25% on non-federally funded employees and the rate changed from 14.605% to 15.355% for federally funded employees.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2015.

| | Governmental | | Business-Type | | Total | |
|--------------------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Revenues: | | | | | | |
| From general sources: | | | | | | |
| Property Tax | 3,982,023 | 2,994,385 | - | - | 3,982,023 | 2,994,385 |
| Motor Vehicle Tax | 229,028 | 223,975 | - | - | 229,028 | 223,975 |
| Utility Tax | 1,225,029 | 1,263,603 | - | - | 1,225,029 | 1,263,603 |
| Other Tax | - | - | - | - | - | - |
| Transportation | - | - | - | - | - | - |
| Investments | 36,506 | 42,257 | 1,584 | 1,885 | 38,090 | 44,142 |
| Other Sources | 283,773 | 231,999 | 500 | - | 284,273 | 231,999 |
| Gain (Loss) Fixed Assets | - | - | - | - | - | - |
| State & Federal Grants | 7,533,969 | 7,393,099 | - | - | 7,533,969 | 7,393,099 |
| Program: | | | | | | |
| Operating Grants | 4,123,780 | 3,841,806 | 662,929 | 669,673 | 4,786,709 | 4,511,479 |
| Capital Grants | 490,031 | 484,888 | - | - | 490,031 | 484,888 |
| Charges for Services | - | - | 364,462 | 357,974 | 364,462 | 357,974 |
| TOTAL REVENUES | 17,904,139 | 16,476,012 | 1,029,475 | 1,029,532 | 18,933,614 | 17,505,544 |
| Expenses: | | | | | | |
| Instruction | 9,748,323 | 8,514,543 | - | - | 9,748,323 | 8,514,543 |
| Student Support | 802,370 | 694,426 | - | - | 802,370 | 694,426 |
| Instructional Support | 1,035,975 | 975,491 | - | - | 1,035,975 | 975,491 |
| District Administration | 379,330 | 509,182 | - | - | 379,330 | 509,182 |
| School Administration | 1,161,747 | 1,144,832 | - | - | 1,161,747 | 1,144,832 |
| Business Support | 491,726 | 538,322 | - | - | 491,726 | 538,322 |
| Plant Operations | 1,184,460 | 1,406,971 | - | - | 1,184,460 | 1,406,971 |
| Student Transportation | 1,297,057 | 1,359,995 | - | - | 1,297,057 | 1,359,995 |
| Facilities Acquisition | - | 53,422 | - | - | - | 53,422 |
| Other | 255,745 | 175,759 | - | - | 255,745 | 175,759 |
| Community Support | - | - | - | - | - | - |
| Depreciation | - | - | - | - | - | - |
| Debt Interest and Amortization | 490,031 | 484,888 | - | - | 490,031 | 484,888 |
| Food Service | - | - | 1,005,196 | 1,096,617 | 1,005,196 | 1,096,617 |
| Community Education/Child Care | - | - | 62,274 | 73,736 | 62,274 | 73,736 |
| TOTAL EXPENDITURES | 16,846,764 | 15,857,831 | 1,067,470 | 1,170,353 | 17,914,234 | 17,028,184 |
| Transfers In | - | - | 6,825 | - | 6,825 | - |
| Transfers Out | (6,825) | - | - | - | (6,825) | - |
| Change In Net Position | 1,050,550 | 618,181 | (31,170) | (140,821) | 1,019,380 | 477,360 |
| Net Position Beginning | 5,471,469 | 8,219,288 | 595,557 | 736,378 | 6,067,026 | 8,955,666 |
| Net Position Ending | 6,522,019 | 8,837,469 | 564,387 | 595,557 | 7,086,406 | 9,433,026 |

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *63% with approximately **37% coming from local sources.

*State Revenue \$9,438,764 divided by Total Revenue \$14,961,836 is equal to 63%

**Total Local \$5,464,777 divided by Total Revenue \$14,961,836 is equal to 37%

BUDGET ALLOCATION

Approximately 78% or \$10,032,593 of the General Fund budget was expended for instruction/administration at the school level, some of which was directed by the Site-Based Decision Making Councils. Approximately 10% of the funds not directly under control of SBDM was spent servicing children with special needs. The amount of funds going to children with special needs is derived from the total budgeted for all special education expenditures including salaries.

SCHOOL ALLOCATION

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

Total instruction includes regular instructional staff, instructional support staff such as support personnel and classroom assistants and other expenditures to support instruction. Total instruction expenditures are \$8,035,049 for regular instruction and \$707,173 instructional support staff or a total of \$8,742,222.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,340,276, maintenance & operations \$1,465,787, business support \$487,258 and district administration of \$358,436 for a total central office support expense of \$3,651,757 or 25%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants decreased by \$27,788 from the previous fiscal year.

Food Service Fund is categorized as a major fund, and constitutes the majority of the decrease in revenue. Food service is a business-type activity. This program had revenues of \$973,137 for fiscal year 2015. The Board of Education continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

CURRENT ISSUES

Hancock County Schools continue to budget conservatively and adhere to the staffing policies that are currently in place. The FY15 showed a slight decrease in EOY AADA of 7.6 students compared to the FY14 school year.

Property assessment for the 2014-15 fiscal year had an increase of \$7.1 million compared to FY14. The Board approved the compensating rate which left the tax rates at the same level as 13-14. The Board approved a motor vehicle tax rate of 40 cents per \$100 of assessed value upon all motor vehicles and watercraft. For fiscal year 2014-2015 there was a decrease in real property tax revenue of \$9,540 and an increase in motor vehicle tax revenue of \$5,053. The utility tax collections decreased by \$38,574.

Hancock County Public Schools have a proud tradition of K-12 academic excellence. As a district, Hancock County Public Schools, A Distinguished District, currently is ranked at the 90 percentile in the state according to the Unbridled Learning: College and Career Readiness Accountability System. Currently both Hancock County High School and Hancock County Middle School are Proficient schools while North Hancock and South Hancock Elementary schools are Needs Improvement schools working to move back towards Proficiency. Our High school consistently has one of the top College and Career Readiness Rates in the state and our Agriculture Department was recognized for being in the top 10 programs for having students who were both college and career ready. We feel our scores are a tribute to our teachers, parents, and students. They are all striving to do well.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$2,012,396 in contingency. This contingency is due largely in part to the Commonwealth Aluminum settlement. As of July 1, 2015 the balance in this account was \$1,252,389, 7% of the General Fund budget. Significant action by the state that impacts the finances of the District was the reduction in Special Revenue grants whereby the District has to supplement these areas to continue needed services.

It is extremely important that the District continue to budget conservatively. The District receives approximately 46 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the State should be considered only an estimate of state revenue. If the State's revenue falls below their own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 16 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

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

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION June 30, 2015

| | Governmental Activities | Business- Type Activities | Total |
|---|----------------------------|---------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 4,946,131 | \$ 249,837 | \$ 5,195,968 |
| Receivables: | | | |
| Taxes | 98,743 | - | 98,743 |
| Intergovernmental – State | 4,546 | - | 4,546 |
| Intergovernmental – Federal | 153,211 | - | 153,211 |
| Inventory | - | 33,396 | 33,396 |
| Net capital assets | <u>19,502,869</u> | <u>281,154</u> | <u>19,784,023</u> |
| Total assets | 24,705,500 | 564,387 | 25,269,887 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred loss on bond refundings | 753,270 | - | 753,270 |
| Deferred outflows of resources related to pension expense | <u>431,000</u> | <u>-</u> | <u>431,000</u> |
| Total deferred outflows of resources | 1,184,270 | - | 1,184,270 |
| LIABILITIES | | | |
| Accrued liabilities | 174,655 | - | 174,655 |
| Unearned revenue | 188,081 | - | 188,081 |
| Current maturities of bond obligations | 1,105,364 | - | 1,105,364 |
| Current portion of accumulated sick leave | 110,798 | - | 110,798 |
| Interest payable | 87,106 | - | 87,106 |
| Noncurrent net pension liability | 3,372,000 | - | 3,372,000 |
| Noncurrent maturities of bond obligations | 13,530,217 | - | 13,530,217 |
| Noncurrent portion of accumulated sick leave | 292,147 | - | 292,147 |
| Noncurrent portion of accrued expense | <u>131,383</u> | <u>-</u> | <u>131,383</u> |
| Total liabilities | 18,991,751 | - | 18,991,751 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pension expense | 376,000 | - | 376,000 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 4,780,182 | 281,154 | 5,061,336 |
| Restricted for: | | | |
| Capital expenditures/debt service | 991,400 | - | 991,400 |
| Unrestricted | <u>750,437</u> | <u>283,233</u> | <u>1,033,670</u> |
| Total net position | \$ 6,522,019 | \$ 564,387 | \$ 7,086,406 |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | Total |
|--|----------------------|----------------------------|--|--|--|---------------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | |
| FUNCTION/PROGRAMS | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | \$ 9,748,323 | \$ - | \$ 2,620,804 | \$ - | \$ (7,127,519) | \$ - | \$ (7,127,519) |
| Student support services | 802,370 | - | 227,421 | - | (574,949) | - | (574,949) |
| Instructional staff support services | 1,035,975 | - | 444,631 | - | (591,344) | - | (591,344) |
| District administration | 379,330 | - | 45,235 | - | (334,095) | - | (334,095) |
| School administration | 1,161,747 | - | 243,018 | - | (918,729) | - | (918,729) |
| Business support services | 491,726 | - | 70,639 | - | (421,087) | - | (421,087) |
| Plant operations and maintenance | 1,184,460 | - | 135,651 | - | (1,048,809) | - | (1,048,809) |
| Student transportation | 1,297,057 | - | 183,372 | - | (1,113,685) | - | (1,113,685) |
| Food service operation | 81,630 | - | 5,069 | - | (76,561) | - | (76,561) |
| Community services | 174,115 | - | 147,940 | - | (26,175) | - | (26,175) |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Interest | 490,031 | - | - | 490,031 | - | - | - |
| Total governmental activities | 16,846,764 | - | 4,123,780 | 490,031 | (12,232,953) | - | (12,232,953) |
| Business-type activities | | | | | | | |
| Food service | 1,005,196 | 310,208 | 662,929 | - | - | (32,059) | (32,059) |
| Other business-type activities | 62,274 | 54,254 | - | - | - | (8,020) | (8,020) |
| Total business-type activities | 1,067,470 | 364,462 | 662,929 | - | - | (40,079) | (40,079) |
| Total primary government | \$ 17,914,234 | \$ 364,462 | \$ 4,786,709 | \$ 490,031 | (12,232,953) | (40,079) | (12,273,032) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property | | | | | 3,982,023 | - | 3,982,023 |
| Motor vehicle | | | | | 229,028 | - | 229,028 |
| Utilities | | | | | 1,225,029 | - | 1,225,029 |
| Earnings on investments | | | | | 36,506 | 1,584 | 38,090 |
| State grants | | | | | 7,475,674 | - | 7,475,674 |
| Federal grants | | | | | 58,295 | - | 58,295 |
| Other local amounts | | | | | 283,773 | 500 | 284,273 |
| Total general revenues | | | | | 13,290,328 | 2,084 | 13,292,412 |
| Operating transfer (out) in | | | | | (6,825) | 6,825 | - |
| Change in net position | | | | | 1,050,550 | (31,170) | 1,019,380 |
| Net position as of July 1, 2014, as previously reported | | | | | 8,837,469 | 595,557 | 9,433,026 |
| Change in accounting principle | | | | | (3,366,000) | - | (3,366,000) |
| Net position as of July 1, 2014, as restated | | | | | 5,471,469 | 595,557 | 6,067,026 |
| Net position as of June 30, 2015 | | | | | \$ 6,522,019 | \$ 564,387 | \$ 7,086,406 |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2015

| | General Fund | Special Revenue Funds | SEEK Capital Outlay Fund | Facility Support Program (FSPK) Fund | School Construction Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|-----------------------------|-----------------------------------|--|--------------------------------|-------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 3,924,407 | \$ 30,324 | \$ 44,758 | \$ - | \$ 946,642 | \$ - | \$ 4,946,131 |
| Receivables: | | | | | | | |
| Taxes | 98,743 | - | - | - | - | - | 98,743 |
| Intergovernmental – State | - | 4,546 | - | - | - | - | 4,546 |
| Intergovernmental – Federal | - | 153,211 | - | - | - | - | 153,211 |
| Total assets | \$ 4,023,150 | \$ 188,081 | \$ 44,758 | \$ - | \$ 946,642 | \$ - | \$ 5,202,631 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities | | | | | | | |
| Accrued liabilities | \$ 174,655 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 174,655 |
| Unearned revenue | - | 188,081 | - | - | - | - | 188,081 |
| Current portion of accumulated sick leave | 110,798 | - | - | - | - | - | 110,798 |
| Total liabilities | 285,453 | 188,081 | - | - | - | - | 473,534 |
| Fund balances | | | | | | | |
| Restricted for: | | | | | | | |
| Capital expenditures/ debt service | - | - | 44,758 | - | - | - | 44,758 |
| Capital expenditures | - | - | - | - | 946,642 | - | 946,642 |
| Committed to future sick leave | 532,336 | - | - | - | - | - | 532,336 |
| Assigned to purchase obligations | 86,963 | - | - | - | - | - | 86,963 |
| Unassigned | 3,118,398 | - | - | - | - | - | 3,118,398 |
| Total fund balances | 3,737,697 | - | 44,758 | - | 946,642 | - | 4,729,097 |
| Total liabilities and fund balances | \$ 4,023,150 | \$ 188,081 | \$ 44,758 | \$ - | \$ 946,642 | \$ - | \$ 5,202,631 |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2015

| | |
|---|---------------------|
| Total fund balances – governmental funds | \$ 4,729,097 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$32,232,452, and the accumulated depreciation is \$12,729,583. | 19,502,869 |
| Deferred loss on bond refundings is not a current financial resource and therefore is not reported as outflows of resources in governmental funds. | 753,270 |
| Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position. | (14,635,581) |
| Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. | (292,147) |
| Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. | (87,106) |
| Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$431,000, the deferred inflows of resources related to pension expense total \$376,000, and the total net pension liability is \$3,372,000. | (3,317,000) |
| Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. | <u>(131,383)</u> |
| Total net position – governmental activities | <u>\$ 6,522,019</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2015

| | General Fund | Special Revenue Funds | SEEK Capital Outlay Fund | Facility Support Program (FSPK) Fund | School Construction Fund | Debt Service Fund | Total Governmental Funds |
|---|---------------------|-----------------------------|-----------------------------------|--|--------------------------------|-------------------------|--------------------------------|
| Revenues | | | | | | | |
| From local sources: | | | | | | | |
| Taxes: | | | | | | | |
| Property | \$ 3,690,441 | \$ - | \$ - | \$ 291,582 | \$ - | \$ - | \$ 3,982,023 |
| Motor vehicle | 229,028 | - | - | - | - | - | 229,028 |
| Utilities | 1,225,029 | - | - | - | - | - | 1,225,029 |
| Earnings on investments | 36,506 | - | - | - | - | - | 36,506 |
| Other local | 283,773 | 21,198 | - | - | - | - | 304,971 |
| Intergovernmental – State | 9,438,764 | 616,915 | 151,767 | 276,786 | - | 731,335 | 11,215,567 |
| Intergovernmental – Federal | 58,295 | 852,720 | - | - | - | - | 911,015 |
| Total revenues | 14,961,836 | 1,490,833 | 151,767 | 568,368 | - | 731,335 | 17,904,139 |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| Instruction | 8,035,049 | 997,731 | - | - | - | - | 9,032,780 |
| Student support services | 727,944 | 74,426 | - | - | - | - | 802,370 |
| Instructional staff support services | 707,173 | 301,230 | - | - | - | - | 1,008,403 |
| District administration | 358,436 | - | - | - | - | - | 358,436 |
| School administration | 1,155,852 | - | - | - | - | - | 1,155,852 |
| Business support services | 487,258 | - | - | - | - | - | 487,258 |
| Plant operations and maintenance | 1,465,787 | - | - | - | - | - | 1,465,787 |
| Student transportation | 1,340,276 | 11,212 | - | - | - | - | 1,351,488 |
| Non-instructional | 81,630 | - | - | - | - | - | 81,630 |
| Community services | 30,716 | 142,659 | - | - | - | - | 173,375 |
| Facilities acquisition and construction | - | - | - | - | 966,117 | - | 966,117 |
| Debt service and miscellaneous | - | - | - | - | 45,050 | 1,408,439 | 1,453,489 |
| Total expenditures | 14,390,121 | 1,527,258 | - | - | 1,011,167 | 1,408,439 | 18,336,985 |
| (Deficit) excess of revenues (under) over expenditures | 571,715 | (36,425) | 151,767 | 568,368 | (1,011,167) | (677,104) | (432,846) |
| Other financing sources (uses) | | | | | | | |
| Proceeds from bond issuance | - | - | - | - | 1,235,000 | - | 1,235,000 |
| Operating transfers in | 141,318 | 65,022 | - | - | 324,351 | 677,104 | 1,207,795 |
| Operating transfers out | (365,383) | (28,597) | (151,767) | (568,368) | (93,680) | - | (1,207,795) |
| Total other financing sources (uses) | (224,065) | 36,425 | (151,767) | (568,368) | 1,465,671 | 677,104 | 1,235,000 |
| Net change in fund balance | 347,650 | - | - | - | 454,504 | - | 802,154 |
| Fund balance as of July 1, 2014 | 3,390,047 | - | 44,758 | - | 492,138 | - | 3,926,943 |
| Fund balance as of June 30, 2015 | <u>\$ 3,737,697</u> | <u>\$ -</u> | <u>\$ 44,758</u> | <u>\$ -</u> | <u>\$ 946,642</u> | <u>\$ -</u> | <u>\$ 4,729,097</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2015

| | |
|--|---------------------|
| Net change in total fund balances – governmental funds | \$ 802,154 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which capital outlays (\$1,469,385) exceed depreciation expense (\$1,017,746) and capital asset transfer to business-type activities (\$6,825) for the year. | 444,814 |
| Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities. | (54,297) |
| Bond proceeds are other financing sources in the governmental fund financial statements, but are not included in the statement of activities. | (1,235,000) |
| Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively. | 1,017,755 |
| Accrued expense related to noncurrent portion of accrued liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources. | 26,277 |
| Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of the County Employees Retirement System contributions. However, on the statement of activities, the pension expense is calculated using the accrual basis of accounting which accounts for the long-term increases and decreases in the net pension liability. | 49,000 |
| Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. | <u>(153)</u> |
| Change in net position – governmental activities | <u>\$ 1,050,550</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2015

| | School Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|-------------------------------|-----------------------------------|---------------------|--------------------------------|-------------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash | \$ 66,468 | \$ 182,743 | \$ 626 | \$ 249,837 |
| Inventory | <u>33,396</u> | <u>-</u> | <u>-</u> | <u>33,396</u> |
| Total current assets | 99,864 | 182,743 | 626 | 283,233 |
| Noncurrent assets | | | | |
| Capital assets | 710,445 | - | 8,050 | 718,495 |
| Less accumulated depreciation | <u>436,116</u> | <u>-</u> | <u>1,225</u> | <u>437,341</u> |
| Total noncurrent assets | <u>274,329</u> | <u>-</u> | <u>6,825</u> | <u>281,154</u> |
| Total assets | 374,193 | 182,743 | 7,451 | 564,387 |
| NET POSITION | | | | |
| Invested in capital assets | 274,329 | - | 6,825 | 281,154 |
| Unrestricted | <u>99,864</u> | <u>182,743</u> | <u>626</u> | <u>283,233</u> |
| Total net position | <u>\$ 374,193</u> | <u>\$ 182,743</u> | <u>\$ 7,451</u> | <u>\$ 564,387</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

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

Year ended June 30, 2015

| | School Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|---|-----------------------------------|---------------------|--------------------------------|-------------------------------|
| Operating revenues | | | | |
| Lunchroom sales | \$ 310,208 | \$ - | \$ - | \$ 310,208 |
| Tuition and fees | <u>-</u> | <u>53,870</u> | <u>384</u> | <u>54,254</u> |
| Total operating revenues | 310,208 | 53,870 | 384 | 364,462 |
| Operating expenses | | | | |
| Salaries, wages, and benefits | 563,672 | 48,725 | - | 612,397 |
| Contract services | 27,240 | 544 | 124 | 27,908 |
| Materials and supplies | 354,126 | 2,767 | 665 | 357,558 |
| Depreciation | 50,425 | - | - | 50,425 |
| Other | <u>9,733</u> | <u>9,399</u> | <u>50</u> | <u>19,182</u> |
| Total operating expenses | <u>1,005,196</u> | <u>61,435</u> | <u>839</u> | <u>1,067,470</u> |
| Operating loss | (694,988) | (7,565) | (455) | (703,008) |
| Nonoperating revenues | | | | |
| Federal grants | 559,632 | - | - | 559,632 |
| State grants | 103,297 | - | - | 94,767 |
| Interest income | 627 | 957 | - | 1,584 |
| Other | <u>-</u> | <u>-</u> | <u>500</u> | <u>500</u> |
| Total nonoperating revenues | 663,556 | 957 | 500 | 665,013 |
| Operating transfer in | - | - | 6,825 | 6,825 |
| Change in net position | (31,432) | (6,608) | 6,870 | (31,170) |
| Net position as of July 1, 2014 | <u>405,625</u> | <u>189,351</u> | <u>581</u> | <u>595,557</u> |
| Net position as of June 30, 2015 | <u>\$ 374,193</u> | <u>\$ 182,743</u> | <u>\$ 7,451</u> | <u>\$ 564,387</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS Year ended June 30, 2015

| | School Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|---|-----------------------------|---------------------|--------------------------------|-------------------------------|
| Cash flows from operating activities | | | | |
| Cash received from: | | | | |
| Lunchroom sales | \$ 310,208 | \$ - | \$ - | \$ 310,208 |
| Tuition and fees | - | 53,870 | 384 | 54,254 |
| Cash paid to/for: | | | | |
| Employees | (468,905) | (48,725) | - | (517,630) |
| Contract services | (27,240) | (544) | (124) | (27,908) |
| Materials and supplies | (281,584) | (2,767) | (665) | (285,016) |
| Other | (9,733) | (9,399) | (50) | (19,182) |
| Net cash used in operating activities | (477,254) | (7,565) | (455) | (485,274) |
| Cash flows from noncapital financing activities | | | | |
| Government grants | 505,187 | - | - | 505,187 |
| Other | - | - | 500 | 500 |
| Net cash provided by noncapital financing activities | 505,187 | - | 500 | 505,687 |
| Cash flows from capital and related financing activities | | | | |
| Capital asset purchases | (54,922) | - | - | (54,922) |
| Net cash used in capital and related financing activities | (54,922) | - | - | (54,922) |
| Cash flows from investing activities | | | | |
| Receipt of interest income | 627 | 957 | - | 1,584 |
| Net cash provided by investing activities | 627 | 957 | - | 1,584 |
| Net (decrease) increase in cash | (26,362) | (6,608) | 45 | (32,925) |
| Cash as of July 1, 2014 | 92,830 | 189,351 | 581 | 282,762 |
| Cash as of June 30, 2015 | <u>\$ 66,468</u> | <u>\$ 182,743</u> | <u>\$ 626</u> | <u>\$ 249,837</u> |
| Reconciliation of operating loss to net cash used in operating activities | | | | |
| Operating loss | \$ (694,988) | \$ (7,565) | \$ (455) | \$ (703,008) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | | |
| Depreciation | 50,425 | - | - | 50,425 |
| Donated commodities | 62,975 | - | - | 62,975 |
| State on-behalf payments | 94,767 | - | - | 94,767 |
| Decrease in inventory | 9,567 | - | - | 9,567 |
| Net cash used in operating activities | <u>\$ (477,254)</u> | <u>\$ (7,565)</u> | <u>\$ (455)</u> | <u>\$ (485,274)</u> |
| Schedule of noncash transactions | | | | |
| Donated commodities received from: | | | | |
| Federal government | \$ 62,975 | \$ - | \$ - | \$ 62,975 |
| State on-behalf payments | 94,767 | - | - | 94,767 |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2015

Student
Activity
Funds

ASSETS

Cash \$ 296,397
Accounts receivable 340

Total assets 296,737

LIABILITIES

Accounts payable 5,364
Due to student groups/employees 291,373

Total liabilities 296,737

NET POSITION \$ -

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2015

1. Basis of presentation and summary of significant accounting policies

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

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

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

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

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

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

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

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

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

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

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

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

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

The District has the following funds:

a. Governmental fund types

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

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

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

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

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

b. Proprietary fund types

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

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

c. Fiduciary fund type

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

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

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

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

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

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

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

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

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

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

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

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Deferred outflows of resources related to pension expense – Deferred outflows of resources related to pension expense represent District contributions to a multi-employer pension plan after the measurement date (June 30, 2014) used to account for the pension liability on the accompanying statement of net position.

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

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

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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

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

Deferred inflows of resources related to pension expense – Deferred inflows of resources related to pension expense on the accompanying statements of net position represents the net difference between projected and actual earnings on investments held by multi-employer pension plans in which the District participates. These amounts will be recognized as pension expense for future years.

Pensions – For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pension expense, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS),

and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2015.

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

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

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

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

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

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

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

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

Estimates – The preparation of basic financial statements requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events – The District's management has evaluated subsequent events through November 11, 2015, the date which the financial statements were available for issue. No subsequent events were of such a nature as to require disclosure.

New accounting pronouncements – In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and in November 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 replace previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of GASB Statements No. 68 and No. 71 are to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. These Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statements No. 68 and No. 71 also provide related note disclosure and supplementary information requirements. The District adopted these statements effective July 1, 2014 (see Note 8) resulting in an increase of deferred outflows of resources related to pension expense of \$450,000, and a \$3,816,000 increase in net pension liability on the statement of net position, and a \$3,366,000 reduction in the District's net position as of July 1, 2014 on the statements of net position and activities.

In February 2015, GASB issued Statement No. 72 *Fair Value Measurement and Application*. GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. GASB Statement No. 72 requires entities to determine fair value

based on the price that would be received to sell an asset or paid to transfer a liability to a market participant utilizing the highest and best use premise. GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB statements that require or permit fair value measurements and disclosures.

GASB Statement No. 72 requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in active markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. GASB Statement No. 72 requires the use of specific valuation techniques based on the available inputs to measure the fair value of the entity's impacted assets and liabilities. When available, GASB Statement No. 72 requires measuring fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

This statement is effective for reporting periods beginning after June 15, 2015. The District has not determined the impact, if any, this statement will have on its future financial statements.

In June 2015, GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. These statements establish new reporting and disclosure requirements for entities that provide postemployment benefits other than retirements and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. These statements are effective for reporting periods beginning after June 15, 2016. The District has not determined the impact these statements will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2015, the carrying amount of the District's deposits with financial institutions was \$5,492,365, and its bank balance totaled \$7,202,062. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

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

Special Revenue Fund
SEEK Capital Outlay Fund
School Construction Fund
Student Activity Funds

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

3. Taxes

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

The property tax rates assessed for the year ended June 30, 2015 were \$.58 per \$100 valuation for real property, \$.58 per \$100 valuation for business personal property, and \$.40 per \$100 valuation for motor vehicles.

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

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2015 is as follows:

| <u>Governmental Activities</u> | <u>Balance July 1, 2014</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Transfers</u> | <u>Balance June 30, 2015</u> |
|--|---------------------------------|-------------------|---------------------|-------------------|----------------------------------|
| Land | \$ 285,807 | \$ - | \$ - | \$ - | \$ 285,807 |
| Land improvements | 1,040,170 | 62,400 | - | - | 1,102,570 |
| Construction in progress | - | 746,070 | - | - | 746,070 |
| Buildings and improvements | 24,334,638 | 220,046 | - | - | 24,554,684 |
| Technology equipment | 2,385,805 | 186,385 | 108,811 | - | 2,463,379 |
| Vehicles | 2,153,997 | 186,513 | 147,930 | (8,050) | 2,184,530 |
| General equipment | 881,950 | 67,971 | 55,713 | - | 894,208 |
| Other | 1,204 | - | - | - | 1,204 |
| Total cost | 31,083,571 | 1,469,385 | 312,454 | (8,050) | 32,232,452 |
| <u>Governmental Activities</u> | | | | | |
| Less accumulated depreciation: | | | | | |
| Land improvements | 660,166 | 36,825 | - | - | 696,991 |
| Buildings and improvements | 7,064,316 | 561,929 | - | - | 7,626,245 |
| Technology equipment | 1,839,337 | 253,311 | 108,811 | (1,225) | 1,982,612 |
| Vehicles | 1,706,128 | 97,593 | 147,930 | - | 1,655,791 |
| General equipment | 755,038 | 68,027 | 55,713 | - | 767,352 |
| Other | 531 | 61 | - | - | 592 |
| Total accumulated depreciation | 12,025,516 | 1,017,746 | 312,454 | (1,225) | 12,729,583 |
| Governmental activities net capital assets | \$ 19,058,055 | \$ 451,639 | \$ - | \$ (6,825) | \$ 19,502,869 |
| <u>Business-Type Activities</u> | | | | | |
| Food service equipment | \$ 657,980 | \$ 54,922 | \$ 2,457 | \$ - | \$ 710,445 |
| Community education equipment | - | - | - | 8,050 | 8,050 |
| Total cost | 657,980 | 54,922 | 2,457 | 8,050 | 718,495 |
| Less accumulated depreciation: | | | | | |
| Food service equipment | 388,148 | 50,425 | 2,457 | - | 436,116 |
| Community education equipment | - | - | - | 1,225 | 1,225 |
| Total accumulated depreciation | 388,148 | 50,425 | 2,457 | 1,225 | 437,341 |
| Business-type activities net capital assets | \$ 269,832 | \$ 4,497 | \$ - | \$ 6,825 | \$ 281,154 |

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

| | |
|--------------------------------------|-------------------------|
| Instruction | \$ 790,667 |
| Instructional staff support services | 27,572 |
| District administration | 20,894 |
| School administration | 5,895 |
| Business support services | 4,468 |
| Plant operations and maintenance | 35,428 |
| Student transportation | 132,082 |
| Community services | <u>740</u> |
| Total depreciation expense | <u>\$ 1,017,746</u> |

5. Bonded debt and lease obligations

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

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

| <u>Issue</u> | <u>Proceeds</u> | <u>Interest Rates</u> |
|--------------|-----------------|-----------------------|
| 2007 | \$ 3,585,000 | 3.45 – 4.18% |
| 2009 | 653,459 | 1.00 – 3.25% |
| 2010 | 1,850,000 | 1.50 – 4.50% |
| 2012 | 675,000 | 3.75% |
| 2012 | 8,010,000 | 2.00 – 2.375% |
| 2013 | 975,000 | 0.70 – 1.100% |
| 2014 | 480,000 | 3.00 – 4.00% |
| 2015 | 1,235,000 | 2.10 – 3.30% |

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

In 2007, 2010, 2012, 2014, and 2015, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for

the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The District has also entered into an agreement with the Federal government. This agreement grants, under the Build American Bonds stimulus program, rebates up to approximately 35% of future debt service interest (approximately \$290,832 through 2030) scheduled for the 2010 issue. The table below sets forth the District's responsibility to make future debt service payments absent of those rebates, and the amount to be paid by the Commission, for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2015 for debt service (principal and interest) are as follows:

| Fiscal Year Ending | Hancock County School District | | Kentucky School Facility Construction Commission | | Total |
|--------------------------|-----------------------------------|---------------------|---|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2016 | \$ 495,209 | \$ 164,099 | \$ 610,155 | \$ 259,480 | \$ 1,528,943 |
| 2017 | 507,938 | 156,170 | 621,950 | 245,384 | 1,531,442 |
| 2018 | 508,008 | 147,768 | 620,805 | 229,253 | 1,505,834 |
| 2019 | 518,314 | 139,514 | 633,202 | 213,019 | 1,504,049 |
| 2020 | 429,809 | 130,734 | 635,191 | 196,644 | 1,392,378 |
| 2021 | 437,325 | 122,007 | 647,675 | 180,073 | 1,387,080 |
| 2022 | 444,403 | 112,990 | 665,597 | 163,090 | 1,386,080 |
| 2023 | 460,564 | 103,366 | 679,436 | 144,841 | 1,388,207 |
| 2024 | 470,701 | 92,754 | 694,299 | 125,476 | 1,383,230 |
| 2025 | 548,809 | 73,028 | 231,191 | 104,932 | 957,960 |
| 2026 | 574,076 | 54,274 | 240,924 | 92,234 | 961,508 |
| 2027 | 594,097 | 34,531 | 245,903 | 77,787 | 952,318 |
| 2028 | 615,752 | 14,047 | 234,248 | 63,520 | 927,567 |
| 2029 | 189,173 | 2,918 | 160,827 | 50,540 | 403,458 |
| 2030 | 197,751 | 1,500 | 172,249 | 35,301 | 406,801 |
| 2031 | - | - | 145,000 | 19,227 | 164,227 |
| 2032 | - | - | 105,000 | 14,030 | 119,030 |
| 2033 | - | - | 105,000 | 10,355 | 115,355 |
| 2034 | - | - | 115,000 | 6,680 | 121,680 |
| 2035 | - | - | 80,000 | 2,640 | 82,640 |
| | <u>\$ 6,991,929</u> | <u>\$ 1,349,700</u> | <u>\$ 7,643,652</u> | <u>\$ 2,234,506</u> | <u>\$ 18,219,787</u> |

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2015 is as follows:

| <u>Issue</u> | <u>Balance July 1, 2014</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance June 30, 2015</u> |
|--------------|---------------------------------|---------------------|---------------------|----------------------------------|
| 2007 | \$ 3,145,000 | \$ - | \$ 85,000 | \$ 3,060,000 |
| 2009 | 370,041 | - | 74,460 | 295,581 |
| 2010 | 1,625,000 | - | 55,000 | 1,570,000 |
| 2012 | 600,000 | - | 25,000 | 575,000 |
| 2012 | 7,255,000 | - | 580,000 | 6,675,000 |
| 2013 | 950,000 | - | 185,000 | 765,000 |
| 2014 | 480,000 | - | 20,000 | 460,000 |
| 2015 | <u>-</u> | <u>1,235,000</u> | <u>-</u> | <u>1,235,000</u> |
| Totals | <u>\$ 14,425,041</u> | <u>\$ 1,235,000</u> | <u>\$ 1,024,460</u> | <u>\$ 14,635,581</u> |

6. Accumulated unpaid sick leave benefits

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

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

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2015 is as follows:

| | |
|-----------------------------|-------------------|
| Balance as of July 1, 2014 | \$ 370,240 |
| Additions | 86,497 |
| Less payments/forfeitures | <u>53,792</u> |
| Balance as of June 30, 2015 | 402,945 |
| Less current portion | <u>110,798</u> |
| Noncurrent portion | <u>\$ 292,147</u> |

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2015 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

The District's employees are provided with two pension plans based on each position's college degree requirement. CERS covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, and death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

| | | |
|--------|----------------------|--|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years service or 65 years old |
| | Reduced retirement | At least 5 years service and 55 years old or at least 25 years service and any age |
| Tier 2 | Participation date | September 1, 2008 – December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | At least 10 years service and 60 years old |

| | | |
|--------|----------------------|--|
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees by the employee are based on the tier:

| | <u>Required contribution</u> |
|--------|------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% + 1% for insurance |
| Tier 3 | 5% + 1% for insurance |

The District matches at a rate of 17.76% of the employee's total covered compensation. The District's matching contributions total \$423,467 for the year ended June 30, 2015.

General information about the Teachers Retirement System of the Commonwealth of Kentucky

Plan description – The District's teaching certified employees and other employees whose positions require at least a college degree are provided pensions through KTRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky, and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008 the System has been amended to change the benefit structure for employees hired on or, after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.105% of their salaries to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for employees hired before July 1, 2008, and 14.105% for those hired after July 1, 2008. For employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Other retirement plans

The District also offers employees three options to participate in a 403(b) Plan under Section 403(b), 401(k), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate in the American Fidelity, Lincoln, or 403B ASP plans, and may contribute up to the maximum amount allowable by law. Members contributed approximately \$138,000 during the year ended June 30, 2015. The District does not contribute to these plans.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund 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 Kentucky 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 employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. 3% of the amount is paid by member contributions, and 0.75% is paid from Commonwealth of Kentucky appropriation, and 2.25% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on the District's behalf. The approximate amount recognized by the District and the Commonwealth of Kentucky as its proportionate share of the net pension liability were as follows:

| | |
|---|--------------|
| District's proportionate share of the CERS net pension liability | \$ 3,372,000 |
| Commonwealth's proportionate share of the KTRS net liability associated with the District | 47,457,000 |

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of CERS as determined by the actuary. At June 30, 2014, the District's proportion was 0.10%.

For the year ended June 30, 2015, the District recognized pension expense totaling approximately \$382,000 related to CERS.

The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 376,000 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | - |
| District contributions subsequent to the measurement date | <u>431,000</u> | <u>-</u> |
| Total | <u>\$ 431,000</u> | <u>\$ 376,000</u> |

Deferred outflows of resources related to pension expense resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows related to pension expense will be recognized in pension expense as follows:

| Year ended <u>June 30,</u> | |
|-------------------------------|-----------|
| 2016 | \$ 75,200 |
| 2017 | 75,200 |
| 2018 | 75,200 |
| 2019 | 75,200 |
| 2020 | 75,200 |

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | <u>CERS</u> | <u>KTRS</u> |
|---|-------------|-------------|
| Inflation | 3.50% | 3.50% |
| Projected salary increases | 4.50% | 4.0 – 8.2% |
| Investment rate of return, net of investment expense and inflation | 7.75% | 7.50% |

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011, and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a ten year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

| | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------|------------------------------|---|
| U.S. equity | 45.0% | 6.4% |
| Non U.S. equity | 17.0% | 6.5% |
| Fixed-income | 24.0% | 1.6% |
| High yield bonds | 4.0% | 3.1% |
| Real estate | 4.0% | 5.8% |
| Alternatives | 4.0% | 6.8% |
| Cash | <u>2.0%</u> | 1.5% |
| Total | <u>100.0%</u> | |

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035, and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District’s net pension liability, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--|--------------------|----------------------------------|--------------------|
| CERS | 6.75% | 7.75% | 8.75% |
| District’s proportionate share of net pension liability | 2,937,000 | 3,372,000 | 3,807,000 |
| KTRS | 4.23% | 5.23% | 6.23% |
| District’s proportionate share of net pension liability | - | - | - |

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

9. On-behalf payments for fringe benefits and other District expenditures

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

| | |
|----------------------------------|---------------------|
| Retirement contributions to KTRS | \$ 1,118,328 |
| Health and life insurance | 1,553,468 |
| Technology | 55,918 |
| Debt Service | 702,983 |
| KISTA lease | <u>28,351</u> |
| Total | <u>\$ 3,459,048</u> |

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

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

11. Deficit operating/fund balances

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

12. COBRA

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

13. Transfer of funds

The following transfers were made during the year ended June 30, 2015:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------|------------------|-----------------|----------------|---------------|
| Matching | General | Special Revenue | Matching | \$ 36,425 |
| Debt Service | General | Debt Service | Debt Payments | 98,287 |

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------|------------------------|--------------------|----------------|---------------|
| Operating | General | Construction | Construction | \$ 230,671 |
| Debt Service | FSPK | Debt Service | Debt Payments | 568,368 |
| Debt Service | SEEK Capital Outlay | Debt Service | Debt Payments | 10,449 |
| Operating | SEEK Capital Outlay | General | Administrative | 141,318 |
| Operating | Special Revenue | Special Revenue | Reallocation | 28,597 |
| Operating | Construction | Construction | Reallocation | 93,680 |

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2015

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | \$ 2,622,000 | \$ 3,242,000 | \$ 3,690,441 | \$ 448,441 |
| Motor vehicle | 210,000 | 210,000 | 229,028 | 19,028 |
| Utilities | 1,140,000 | 1,140,000 | 1,225,029 | 85,029 |
| Earnings on investments | 21,000 | 21,000 | 36,506 | 15,506 |
| Other local | 247,185 | 247,185 | 283,773 | 36,588 |
| Intergovernmental – State | 6,885,164 | 6,885,164 | 9,438,764 | 2,553,600 |
| Intergovernmental – Federal | <u>20,000</u> | <u>20,000</u> | <u>58,295</u> | <u>38,295</u> |
| Total revenues | 11,145,349 | 11,765,349 | 14,961,836 | 3,196,487 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 6,412,731 | 6,664,384 | 8,035,049 | (1,370,665) |
| Student support services | 560,203 | 624,044 | 727,944 | (103,900) |
| Instructional staff support services | 562,862 | 582,644 | 707,173 | (124,529) |
| District administration | 556,835 | 641,799 | 358,436 | 283,363 |
| School administration | 920,008 | 922,417 | 1,155,852 | (233,435) |
| Business support services | 390,835 | 403,305 | 487,258 | (83,953) |
| Plant operations and maintenance | 1,413,660 | 1,664,836 | 1,465,787 | 199,049 |
| Student transportation | 1,103,586 | 1,229,456 | 1,340,276 | (110,820) |
| Non-instructional | 4,700 | 144,700 | 81,630 | 63,070 |
| Community services | 20,933 | 20,970 | 30,716 | (9,746) |
| Contingency | <u>2,209,545</u> | <u>1,877,343</u> | <u>-</u> | <u>1,877,343</u> |
| Total expenditures | <u>14,155,898</u> | <u>14,775,898</u> | <u>14,390,121</u> | <u>385,777</u> |
| Excess (deficit) of revenues over (under) expenditures | (3,010,549) | (3,010,549) | 571,715 | 3,582,264 |
| Other financing sources (uses) | | | | |
| Operating transfers in | 129,838 | 129,838 | 141,318 | 11,480 |
| Operating transfers out | <u>(119,289)</u> | <u>(119,289)</u> | <u>(365,383)</u> | <u>(246,094)</u> |
| Total other financing sources (uses) | <u>10,549</u> | <u>10,549</u> | <u>(224,065)</u> | <u>(234,614)</u> |
| Net change in fund balance | (3,000,000) | (3,000,000) | 347,650 | 3,347,650 |
| Fund balance as of July 1, 2014 | <u>3,390,047</u> | <u>3,390,047</u> | <u>3,390,047</u> | <u>-</u> |
| Fund balance as of June 30, 2015 | <u>\$ 390,047</u> | <u>\$ 390,047</u> | <u>\$ 3,737,697</u> | <u>\$ 3,347,650</u> |

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
Year ended June 30, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Favorable (Unfavorable) |
|---|--------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Local sources | \$ - | \$ - | \$ 21,198 | \$ 21,198 |
| Intergovernmental – State | 448,659 | 714,812 | 616,915 | (97,897) |
| Intergovernmental – Federal | <u>641,878</u> | <u>828,923</u> | <u>852,720</u> | <u>23,797</u> |
| Total revenues | 1,090,537 | 1,543,735 | 1,490,833 | (52,902) |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 639,647 | 1,014,746 | 997,731 | 17,015 |
| Student support services | 54,397 | 52,071 | 74,426 | (22,355) |
| Instructional staff support services | 230,340 | 308,944 | 301,230 | 7,714 |
| Business support services | 10,000 | 13,608 | - | 13,608 |
| Student transportation | 39,230 | 29,912 | 11,212 | 18,700 |
| Community services | <u>140,352</u> | <u>145,454</u> | <u>142,659</u> | <u>2,795</u> |
| Total expenditures | <u>1,113,966</u> | <u>1,564,735</u> | <u>1,527,258</u> | <u>37,477</u> |
| (Deficit) excess of revenues (under) over expenditures | (23,429) | (21,000) | (36,425) | (15,425) |
| Other financing sources | | | | |
| Operating transfers in | 21,000 | 49,597 | 65,022 | 15,425 |
| Operating transfers out | <u>-</u> | <u>(28,597)</u> | <u>(28,597)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>21,000</u> | <u>21,000</u> | <u>36,425</u> | <u>15,425</u> |
| Net change in fund balance | (2,429) | - | - | - |
| Fund balance as of July 1, 2014 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance as of June 30, 2015 | <u><u>\$ (2,429)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year ended June 30, 2014

| | |
|--|--------------|
| District's proportion of the net pension liability | 0.10% |
| District's proportionate share of the net pension liability | \$ 3,372,000 |
| District's covered-employee payroll | \$ 2,384,387 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 141.42% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80% |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS – COUNTY EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30, 2014

| | |
|--|------------------|
| Contractually required contribution | \$ 450,449 |
| Contributions in relation to the contractually required contribution | <u>(450,449)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered-employee payroll | \$ 2,384,387 |
| Contributions as a percentage of covered-employee payroll | 18.89% |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES
RETIREMENT SYSTEM**

Year ended June 30, 2014

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2014).

Changes of assumptions – There have been no changes of assumptions during the period covered by the required supplementary information (2014).

Period covered by the required supplementary information – GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY – KENTUCKY TEACHERS RETIREMENT SYSTEM**

Year ended June 30, 2014

| | |
|---|---------------|
| Commonwealth of Kentucky's proportion of the net pension liability | 0.22% |
| Commonwealth of Kentucky's proportionate share of the net pension liability | \$ 47,456,512 |
| Plan fiduciary net position as a percentage of the total pension liability | 45.59% |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS – KENTUCKY
TEACHERS RETIREMENT SYSTEM**

For the year ended June 30, 2014

| | |
|---|--------------------|
| Statutorily required contribution | \$ 1,118,328 |
| Contributions in relation to the statutorily required contribution | <u>(1,118,328)</u> |
| Annual contribution deficiency (excess) | <u>\$ -</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – KENTUCKY TEACHERS RETIREMENT SYSTEM

Year ended June 30, 2014

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2014).

Changes of assumptions – There have been no changes of assumptions during the period covered by the required supplementary information (2014).

Period covered by the required supplementary information – GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
MIDDLE AND ELEMENTARY SCHOOLS ACTIVITY FUNDS
Year ended June 30, 2015**

| <u>School</u> | <u>Cash July 1, 2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash June 30, 2015</u> | <u>Accounts Receivable June 30, 2015</u> | <u>Accounts Payable June 30, 2015</u> | <u>Due to Student Groups June 30, 2015</u> |
|------------------------------------|----------------------------------|-------------------|----------------------|-----------------------------------|--|---|--|
| North Hancock Elementary School | \$ 33,605 | \$ 81,644 | \$ 77,511 | \$ 37,738 | \$ - | \$ 2,442 | \$ 35,296 |
| South Hancock Elementary School | 42,323 | 36,497 | 37,783 | 41,037 | - | - | 41,037 |
| Hancock County Middle School | <u>70,417</u> | <u>118,033</u> | <u>100,046</u> | <u>88,404</u> | <u>-</u> | <u>1,035</u> | <u>87,369</u> |
| Totals | <u>\$ 146,345</u> | <u>\$ 236,174</u> | <u>\$ 215,340</u> | <u>\$ 167,179</u> | <u>\$ -</u> | <u>\$ 3,477</u> | <u>\$ 163,702</u> |

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS
Year ended June 30, 2015**

| <u>Activity Fund</u> | <u>Cash</u> <u>July 1,</u> <u>2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Interfund</u> <u>Transfers</u> | <u>Cash</u> <u>June 30,</u> <u>2015</u> | <u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2015</u> | <u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2015</u> | <u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2015</u> |
|---------------------------|--|-----------------|----------------------|--------------------------------------|---|--|---|--|
| General | \$ 1,993 | \$ 16,981 | \$ 17,488 | \$ (447) | \$ 1,039 | \$ 340 | \$ - | \$ 1,379 |
| Teachers lounge | 444 | 5,596 | 5,934 | - | 106 | - | - | 106 |
| Vending | 1,291 | 3,924 | 4,199 | (258) | 758 | - | - | 758 |
| Flower and gift fund | 277 | 315 | 274 | - | 318 | - | - | 318 |
| Gate receipts | 36,766 | 52,426 | 9,569 | (57,358) | 22,265 | - | - | 22,265 |
| Athletic department | - | 516 | 5,028 | 4,512 | - | - | - | - |
| Athletic Director | - | 991 | 3,339 | 2,348 | - | - | - | - |
| Archery | - | 587 | 1,561 | 974 | - | - | - | - |
| Archery boosters | 3,893 | 15,134 | 10,765 | (99) | 8,163 | - | - | 8,163 |
| Baseball | - | 1,400 | 6,210 | 4,810 | - | - | - | - |
| Boys basketball | - | - | 5,034 | 5,034 | - | - | - | - |
| Boys basketball boosters | 5,158 | 24,153 | 20,381 | 11 | 8,941 | - | 509 | 8,432 |
| Cross country | - | 90 | 3,978 | 3,888 | - | - | - | - |
| Cross country boosters | - | 6,743 | 5,262 | 1,000 | 2,481 | - | - | 2,481 |
| Football | - | - | 12,250 | 12,250 | - | - | - | - |
| Football boosters | 4,368 | 37,074 | 27,974 | (1,200) | 12,268 | - | 351 | 11,917 |
| Girls basketball | - | - | 4,841 | 4,841 | - | - | - | - |
| Girls basketball boosters | 7,455 | 8,585 | 11,211 | 4,011 | 8,840 | - | - | 8,840 |
| Golf | - | - | 1,859 | 1,859 | - | - | - | - |

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2015**

| <u>Activity Fund</u> | <u>Cash July 1, 2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Interfund Transfers</u> | <u>Cash June 30, 2015</u> | <u>Accounts Receivable June 30, 2015</u> | <u>Accounts Payable June 30, 2015</u> | <u>Due to Student Groups June 30, 2015</u> |
|--------------------------|----------------------------------|-----------------|----------------------|--------------------------------|-----------------------------------|--|---|--|
| Softball | \$ - | \$ 1,020 | \$ 5,058 | \$ 4,038 | \$ - | \$ - | \$ - | \$ - |
| Tennis | - | 2,579 | 3,573 | 994 | - | - | - | - |
| Track | - | - | 1,815 | 1,815 | - | - | - | - |
| Track and XC boosters | 1,279 | 11,161 | 9,754 | (1,045) | 1,641 | - | - | 1,641 |
| Volleyball | - | 180 | 4,727 | 4,547 | - | - | - | - |
| Volleyball boosters | 4,222 | 14,439 | 14,627 | 2,211 | 6,245 | - | - | 6,245 |
| PTO fundraiser | 1,393 | 3,219 | 3,873 | - | 739 | - | - | 739 |
| Golf tournament | 250 | 3,998 | 3,468 | 517 | 1,297 | - | - | 1,297 |
| Tri-Concessions | 1,542 | 13,483 | 6,460 | (6,576) | 1,989 | - | - | 1,989 |
| Athletic long term needs | - | - | 1,200 | 1,200 | - | - | - | - |
| State tournament | - | 8,019 | 10,883 | 2,864 | - | - | - | - |
| Academic team | 664 | 1,200 | 1,529 | - | 335 | - | - | 335 |
| Arts and Humanities | 18 | 60 | - | - | 78 | - | - | 78 |
| Beta Club | 1,032 | 1,731 | 2,819 | 56 | - | - | - | - |
| Cheerleaders | 1,051 | 12,912 | 15,160 | 1,197 | - | - | - | - |
| Cheer booster | - | 3,978 | 1,808 | - | 2,170 | - | - | 2,170 |
| Cheer scholarship | - | 50 | 200 | 385 | 235 | - | - | 235 |
| FBLA | 329 | 3,049 | 3,782 | 582 | 178 | - | - | 178 |
| FCA | 352 | - | - | - | 352 | - | - | 352 |

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2015**

| <u>Activity Fund</u> | <u>Cash July 1, 2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Interfund Transfers</u> | <u>Cash June 30, 2015</u> | <u>Accounts Receivable June 30, 2015</u> | <u>Accounts Payable June 30, 2015</u> | <u>Due to Student Groups June 30, 2015</u> |
|----------------------|----------------------------------|-----------------|----------------------|--------------------------------|-----------------------------------|--|---|--|
| FEA | \$ 536 | \$ - | \$ - | \$ - | \$ 536 | \$ - | \$ - | \$ 536 |
| FFA | 3,411 | 14,168 | 14,015 | 10 | 3,574 | - | - | 3,574 |
| FHA | 2,342 | 2,849 | 3,387 | 45 | 1,849 | - | - | 1,849 |
| FCCLA Regional | 350 | 380 | 150 | - | 580 | - | - | 580 |
| Art Club | 5 | 980 | 995 | 20 | 10 | - | - | 10 |
| Pep Club | 264 | 1,225 | 2,356 | 888 | 21 | - | - | 21 |
| Reading Club | 871 | 528 | 725 | (100) | 574 | - | - | 574 |
| Spanish Club | - | 3,075 | 2,835 | - | 240 | - | - | 240 |
| Sp Educ.Learn Ctr | 596 | - | 333 | - | 263 | - | - | 263 |
| Social Studies Club | 425 | 130 | 217 | - | 338 | - | - | 338 |
| Student Council | 38 | - | - | - | 38 | - | - | 38 |
| TSA | 1,615 | 1,996 | 2,125 | (30) | 1,456 | - | - | 1,456 |
| Skills USA | 668 | - | 559 | - | 109 | - | - | 109 |
| HOSA | 1,035 | 710 | 1,370 | 220 | 595 | - | - | 595 |
| HOSA Nationals | - | 5,756 | 3,888 | - | 1,868 | - | 901 | 967 |
| STLP | 945 | 30 | 28 | (947) | - | - | - | - |
| Safe committee | - | 702 | - | - | 702 | - | - | 702 |
| Business | 205 | - | - | - | 205 | - | - | 205 |
| Chorus | 3,368 | 7,089 | 7,812 | (2,000) | 645 | - | - | 645 |

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2015**

| <u>Activity Fund</u> | <u>Cash July 1, 2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Interfund Transfers</u> | <u>Cash June 30, 2015</u> | <u>Accounts Receivable June 30, 2015</u> | <u>Accounts Payable June 30, 2015</u> | <u>Due to Student Groups June 30, 2015</u> |
|----------------------|----------------------------------|-----------------|----------------------|--------------------------------|-----------------------------------|--|---|--|
| Community Based | | | | | | | | |
| Education | \$ 420 | \$ 4,937 | \$ 3,628 | \$ - | \$ 1,729 | \$ - | \$ - | \$ 1,729 |
| Dance Team | - | 188 | 175 | - | 13 | - | - | 13 |
| Health and PE | 97 | - | - | 262 | 359 | - | - | 359 |
| Family Consumer | 320 | 1,061 | 1,161 | - | 220 | - | - | 220 |
| Theatre | 4,115 | 4,876 | 4,772 | 2,000 | 6,219 | - | - | 6,219 |
| Yearbook | 7,473 | 8,350 | 10,633 | - | 5,190 | - | - | 5,190 |
| Spoken Word Society | - | 138 | 114 | - | 24 | - | - | 24 |
| C D Mayfield Scholar | 354 | - | - | - | 354 | - | - | 354 |
| Scholarship | 1,344 | 2,600 | 2,600 | - | 1,344 | - | - | 1,344 |
| In lieu of textbooks | 289 | - | 279 | - | 10 | - | - | 10 |
| Memorial Garden | 126 | - | - | - | 126 | - | - | 126 |
| Textbook rental | 2,334 | 32,048 | 25,650 | (1,703) | 7,029 | - | - | 7,029 |
| Field trips | 48 | - | - | - | 48 | - | - | 48 |
| Technology | 198 | 495 | 1,149 | 660 | 204 | - | - | 204 |
| Student/staff need | 26 | 30 | - | - | 56 | - | - | 56 |
| Prom account | 4,457 | 2,712 | 3,144 | - | 4,025 | - | - | 4,025 |
| Relay for Life | 307 | 3,451 | 3,624 | - | 134 | - | - | 134 |
| HCBank | 1,060 | - | 1,060 | - | - | - | - | - |

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2015**

| <u>Activity Fund</u> | <u>Cash July 1, 2014</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Interfund Transfers</u> | <u>Cash June 30, 2015</u> | <u>Accounts Receivable June 30, 2015</u> | <u>Accounts Payable June 30, 2015</u> | <u>Due to Student Groups June 30, 2015</u> |
|----------------------|----------------------------------|-------------------|----------------------|--------------------------------|-----------------------------------|--|---|--|
| Summer school | \$ 1,123 | \$ 520 | \$ 651 | \$ - | \$ 992 | \$ - | \$ - | \$ 992 |
| KOSSA | 12 | - | 145 | 150 | 17 | - | - | 17 |
| After prom | 367 | 2,458 | 1,687 | - | 1,138 | - | - | 1,138 |
| Math department | - | 2,500 | 2,500 | - | - | - | - | - |
| Fletcher Thrasher S | 462 | 7,362 | 7,154 | 143 | 813 | - | - | 813 |
| IT scholarship | 638 | - | 493 | - | 145 | - | - | 145 |
| Youth Service Center | 1,450 | 2,360 | 2,699 | 300 | 1,411 | - | 126 | 1,285 |
| IPad repairs | 304 | 2,318 | 3,743 | 1,121 | - | - | - | - |
| Class of 2014 | - | - | (48) | (48) | - | - | - | - |
| Class of 2015 | 1,620 | 1,204 | 1,743 | 48 | 1,129 | - | - | 1,129 |
| Class of 2016 | 815 | 2,232 | 1,469 | - | 1,578 | - | - | 1,578 |
| Class of 2017 | 624 | 199 | 27 | - | 796 | - | - | 796 |
| Class of 2018 | - | 74 | - | - | 74 | - | - | 74 |
| Totals | \$ 120,834 | \$ 377,324 | \$ 368,940 | \$ - | \$ 129,218 | \$ 340 | \$ 1,887 | \$ 127,671 |

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|--|------------------------|--|-----------------------------------|
| Cash expenditures | | | |
| <u>U.S. Department of Education</u> | | | |
| Kentucky Department of Education: | | | |
| Title I | 84.010 | 3100002-14 3100002-13 | \$ 226,226 <u>58,824</u> |
| Subtotal | | | <u>285,050</u> |
| Special Education | 84.027 | 3810002-14 3810002-13 3810002-12 | 277,774 16,285 <u>3,456</u> |
| Subtotal | | | <u>297,515</u> |
| Special Education Preschool | 84.173 | 3800002-13 | 14,860 |
| Vocational Education Basic | 84.048 | 4621332-14 | 11,394 |
| Improving Teacher Quality | 84.367 | 3230002-14 3230002-13 | 54,887 <u>10,861</u> |
| Subtotal | | | <u>65,748</u> |
| Adult Education | 84.002 | 365A 373A 373AS | 4,049 18,600 <u>376</u> |
| Subtotal | | | <u>23,025</u> |
| 21 st Century Community Learning Centers | 84.287 | 3400002-13 3400002-12 | 80,685 <u>72,683</u> |
| Subtotal | | | <u>153,368</u> |
| Race to the Top | 84.413 | 3960002-11 | <u>1,760</u> |
| Total U.S. Department of Education | | | <u>852,720</u> |

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|--|---------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Kentucky Department of Education: | | | |
| National School Lunch Program | 10.555 | 7750002-15 7750002-14 | \$ 276,958 <u>83,256</u> |
| Subtotal | | | <u>360,214</u> |
| National School Breakfast Program | 10.553 | 7760005-15 7760005-14 | 106,081 <u>30,362</u> |
| Subtotal | | | <u>136,443</u> |
| Total U.S. Department of Agriculture | | | <u>496,657</u> |
| Total cash expenditures | | | 1,349,377 |
| Non-cash expenditures | | | |
| <u>U.S. Department of Agriculture</u> | | | |
| Kentucky Department of Agriculture: | | | |
| Food Donation | 10.555 | Not Provided | <u>62,975</u> |
| Total federal expenditures | | | <u>\$ 1,412,352</u> |

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hancock County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Food donation

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

3. Program clusters

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

| <u>Cluster Name</u> | <u>CFDA</u> | <u>Total Grant</u> |
|---------------------|---------------|--------------------|
| Child Nutrition | 10.555/10.553 | \$ 559,632 |
| Special Education | 84.027/84.173 | 312,375 |

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements – State Compliance Requirements*.

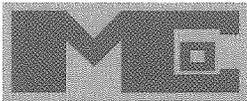
We noted certain other matters that we reported to the District's management in a separate letter dated November 11, 2015.

Purpose of this Report

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2015



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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

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

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

Report on Compliance for Each Major Federal Program

We have audited the Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2015

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 10.555/10.553 | Child Nutrition |
| 84.010 | Title I |

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

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2015

Section II – Financial Statement Findings

No matters to report

Section III – Federal Award Findings

No matters to report.

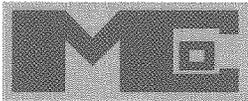
HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2015

Prior year comment: Timely bank reconciliations were not performed on the school food service account throughout the year.

Current year follow-up: There were no such instances noted in the current year.



**MATHER
& COMPANY**

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

SOLUTION-DRIVEN CPAs and Business Advisors

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

In planning and performing our audit of the basic financial statements of the Hancock County School District (District) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*, we considered the District's internal control over financial reporting and compliance to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or a significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 11, 2015 on the financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2015

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2015**

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

SOUTH HANCOCK ELEMENTARY SCHOOL

Prior year comment: The School did not follow Redbook guidelines with regards to depositing receipts in a timely manner.

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

NORTH HANCOCK ELEMENTARY SCHOOL

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

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

Prior year comment: The School did not follow Redbook guidelines with regards to depositing receipts in a timely manner.

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

HANCOCK COUNTY MIDDLE SCHOOL

Prior year comment: The School did not follow Redbook guidelines with regards to performing timely bank statement reconciliations during certain months of the school year.

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

Prior year comment: The School did not follow Redbook guidelines with regards to issuing checks with only one signature.

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

Prior year comment: The School did not follow Redbook guidelines with regards to depositing a receipt in a timely manner.

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

HANCOCK COUNTY HIGH SCHOOL

Prior year comment: The School did not follow Redbook guidelines with regards to depositing receipts intact.

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

Current Year Findings

NORTH HANCOCK ELEMENTARY SCHOOL

Statement of deficiency: During disbursements testing we noted a cash disbursement to purchase supplies without supporting documentation.

Criteria for deficiency: This is not in compliance with Redbook purchasing guidelines.

Cause of the deficiency: Redbook guidelines were not followed with respect to documentation needed for a disbursement.

Effect of the deficiency: Documentation needed for a disbursement per Redbook guidelines does not exist.

Recommendation for correction: We recommend the District follow Redbook policy and require completion of a purchase order and maintain copies of receipts and/or invoices for all disbursements.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at North Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed with purchasing supplies and supporting documentation requirements. The Board will provide training opportunities to the principal and bookkeeper if they would like to attend a refresher course in Redbook procedures. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

HANCOCK COUNTY HIGH SCHOOL

Statement of deficiency: During receipts testing we noted instances where the school Booster Club held activity fund money for longer than the amount of time permitted by Redbook guidelines before turning it in to the school's bookkeeper to be deposited.

Criteria for deficiency: This is not in compliance with Redbook receipt guidelines.

Cause of the deficiency: Funds were held beyond the time permitted by Redbook guidelines.

Effect of the deficiency: This is in violation of Redbook receipt guidelines.

Recommendation for correction: We recommend all funds be turned in daily to the bookkeeper and deposited in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal, bookkeeper and Athletic Director at Hancock County High School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed by Booster Clubs and depositing funds in a timely manner. The district will request that the Athletic Director meet with Booster Club presidents and review the proper procedures that are required for timely deposits and turning in those deposits to the school bookkeeper. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.