

**HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2015

**HART COUNTY SCHOOL DISTRICT**

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## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. 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 on pages 4 to 10, budgetary comparison information on pages 45 to 46, schedule of proportionate share of the net pension liability on page 47 and schedule of contributions on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2015, on our consideration of Hart County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hart County School District's internal control over financial reporting and compliance.



Certified Public Accountants  
Elizabethtown, Kentucky  
September 28, 2015

**REQUIRED SUPPLEMENTARY INFORMATION**

**HART COUNTY SCHOOL DISTRICT – MUNFORDVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

The discussion and analysis of Hart County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$922 thousand. Ending cash was \$1 million.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District’s governmental fund balances improved. Fund balances increased by \$214 thousand.
- The General Fund had \$19.4 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments for retirement and health insurance and property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$19.4 million in General Fund expenditures.
- Bonds are issued as the District builds and renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District issued bonds to pay the KSBIT liability. The District’s total debt decreased by \$845 thousand during the fiscal year..

**USING THIS ANNUAL REPORT**

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

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

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

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

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

The government-wide financial statements can be found on pages 11 - 12 of this report.

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

The basic governmental fund financial statements can be found on pages 13 - 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 44 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$7.6 million as of June 30, 2015.

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

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

**Net Position for the periods ending June 30, 2015 and 2014  
(Table 1)**

|                                  | Governmental<br>Activities |                      | Business-type<br>Activities |                   | Total<br>Primary Government |                      |
|----------------------------------|----------------------------|----------------------|-----------------------------|-------------------|-----------------------------|----------------------|
|                                  | 2015                       | 2014                 | 2015                        | 2014              | 2015                        | 2014                 |
| Current and Other Assets         | \$ 1,528,252               | \$ 1,634,262         | \$ 166,630                  | \$ 192,155        | \$ 1,694,882                | \$ 1,826,417         |
| Capital Assets                   | 27,554,358                 | 28,570,042           | 659,577                     | 708,174           | 28,213,935                  | 29,278,216           |
| <b>Total Assets</b>              | <b>29,082,610</b>          | <b>30,204,304</b>    | <b>826,207</b>              | <b>900,329</b>    | <b>29,908,817</b>           | <b>31,104,633</b>    |
| Deferred Outflows                | 1,250,788                  | 922,873              | 92,042                      |                   | 1,342,830                   | 922,873              |
| Long-term Debt                   | 20,320,220                 | 17,582,202           | 724,715                     |                   | 21,044,935                  | 17,582,202           |
| Other Liabilities                | 2,070,764                  | 2,677,965            | 3,132                       | 8,403             | 2,073,896                   | 2,686,368            |
| <b>Total Liabilities</b>         | <b>22,390,984</b>          | <b>20,260,167</b>    | <b>727,847</b>              | <b>8,403</b>      | <b>23,118,831</b>           | <b>20,268,570</b>    |
| Deferred Inflows                 | 405,088                    | 922,873              | 80,912                      |                   | 486,000                     | 922,873              |
| <b>Net Position</b>              |                            |                      |                             |                   |                             |                      |
| Net investment in capital assets | 11,401,939                 | 10,777,624           | 659,577                     | 708,174           | 12,061,516                  | 11,485,798           |
| Restricted                       | 269,594                    | 92,398               |                             |                   | 269,594                     | 92,398               |
| Unrestricted                     | (4,134,207)                | (3,012)              | (550,088)                   | 183,752           | (4,684,295)                 | 180,740              |
| <b>Total Net Position</b>        | <b>\$ 7,537,326</b>        | <b>\$ 10,867,010</b> | <b>\$ 109,489</b>           | <b>\$ 891,926</b> | <b>\$ 7,646,815</b>         | <b>\$ 11,758,936</b> |

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

The District adopted GASB Statement 68 which resulted in the recognition of a net pension liability for CERS of \$4.4 million.

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2015, net of Interfund transfers, were \$28.2 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$600 thousand more than budget.
- The total cost of all programs and services including debt service was \$26.5 million.
- General fund budget expenditures to actual varied significantly in Other Expenses. This resulted from the District not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net position for the fiscal years ended June 30, 2015 and 2014.

|   | Governmental<br>Activities |                     | Business-type<br>Activities |                    | Total<br>Primary Government |                     |
|---|----------------------------|---------------------|-----------------------------|--------------------|-----------------------------|---------------------|
|   | 2015                       | 2014                | 2015                        | 2014               | 2015                        | 2014                |
| <b>REVENUES:</b>  |                            |                     |                             |                    |                             |                     |
| <b>Program revenues:</b>                                |                            |                     |                             |                    |                             |                     |
| Charges for services                                    | \$ 800                     | \$ -                | \$ 177,327                  | \$ 340,829         | \$ 178,127                  | \$ 340,829          |
| Operating grants and contributions                      | 9,771,622                  | 7,805,466           | 1,469,357                   | 1,185,794          | 11,240,979                  | 8,991,260           |
| Capital grants  | 1,466,725                  | 1,448,720           | -                           | -                  | 1,466,725                   | 1,448,720           |
| <b>General revenues:</b>                                |                            |                     |                             |                    |                             |                     |
| Property taxes  | 2,942,584                  | 2,892,971           | -                           | -                  | 2,942,584                   | 2,892,971           |
| Motor vehicle taxes                                     | 406,386                    | 410,373             | -                           | -                  | 406,386                     | 410,373             |
| Utility taxes   | 1,213,786                  | 1,193,649           | -                           | -                  | 1,213,786                   | 1,193,649           |
| Revenue in lieu of taxes                                | 102,449                    | 103,866             | -                           | -                  | 102,449                     | 103,866             |
| Other taxes   | 13,446                     | 12,796              | -                           | -                  | 13,446                      | 12,796              |
| Gain on disposal of capital assets                      | -                          | 19,757              | -                           | -                  | -                           | 19,757              |
| Investment earnings                                     | 4,111                      | 10,410              | 97                          | 449                | 4,208                       | 10,859              |
| State and formula grants                                | 10,520,200                 | 10,301,524          | -                           | -                  | 10,520,200                  | 10,301,524          |
| Miscellaneous   | 92,116                     | 86,011              | -                           | -                  | 92,116                      | 86,011              |
| <b>Total revenues</b>                                   | <b>26,534,225</b>          | <b>24,285,543</b>   | <b>1,646,781</b>            | <b>1,527,072</b>   | <b>28,181,006</b>           | <b>25,812,615</b>   |
| <b>EXPENSES</b>   |                            |                     |                             |                    |                             |                     |
| <b>Program Activities</b>                               |                            |                     |                             |                    |                             |                     |
| Instruction   | 16,256,651                 | 13,956,489          | -                           | -                  | 16,256,651                  | 13,956,489          |
| Student support   | 1,253,150                  | 1,267,631           | -                           | -                  | 1,253,150                   | 1,267,631           |
| Instructional staff support                             | 1,129,494                  | 1,144,100           | -                           | -                  | 1,129,494                   | 1,144,100           |
| District administrative support                         | 896,517                    | 1,109,395           | -                           | -                  | 896,517                     | 1,109,395           |
| School administrative support                           | 1,466,385                  | 1,420,364           | -                           | -                  | 1,466,385                   | 1,420,364           |
| Business support  | 812,274                    | 690,860             | -                           | -                  | 812,274                     | 690,860             |
| Plant operation and maintenance                         | 1,877,574                  | 2,043,932           | -                           | -                  | 1,877,574                   | 2,043,932           |
| Student transportation                                  | 1,779,071                  | 1,926,870           | -                           | -                  | 1,779,071                   | 1,926,870           |
| Community service activities                            | 241,732                    | 267,779             | -                           | -                  | 241,732                     | 267,779             |
| Other   | 143,112                    | 155,679             | -                           | -                  | 143,112                     | 155,679             |
| Interest costs  | 625,283                    | 657,240             | -                           | -                  | 625,283                     | 657,240             |
| <b>Business-type Activities:</b>                        |                            |                     |                             |                    |                             |                     |
| Food service  | -                          | -                   | 1,681,528                   | 1,608,092          | 1,681,528                   | 1,608,092           |
| <b>Total expenses</b>                                   | <b>26,481,243</b>          | <b>24,640,339</b>   | <b>1,681,528</b>            | <b>1,608,092</b>   | <b>28,162,771</b>           | <b>26,248,431</b>   |
| <b>Change in net position before extraordinary item</b> | <b>52,982</b>              | <b>(354,796)</b>    | <b>(34,747)</b>             | <b>(81,020)</b>    | <b>18,235</b>               | <b>(435,816)</b>    |
| <b>Extraordinary item</b>                               | <b>360,644</b>             | <b>130,332</b>      | <b>-</b>                    | <b>-</b>           | <b>360,644</b>              | <b>130,332</b>      |
| <b>Change in net position</b>                           | <b>\$ 413,626</b>          | <b>\$ (224,464)</b> | <b>\$ (34,747)</b>          | <b>\$ (81,020)</b> | <b>\$ 378,879</b>           | <b>\$ (305,484)</b> |

### Governmental Activities

Instruction comprises 61% of governmental program expenses. Support services expenses make up 36% of government expenses. The remaining expense for community services, interest and other expense accounts for the remaining 3% of total government expense.

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

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

|                        | <u>2015</u>          | <u>2014</u>          | <u>2015</u>          | <u>2014</u>          |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| Instruction            | \$ 16,256,651        | \$ 13,956,489        | \$ 8,309,805         | \$ 8,062,419         |
| Support Services       | 9,214,465            | 9,603,152            | 7,773,231            | 8,107,963            |
| Community services     | 241,732              | 267,779              | (2,926)              | 3,466                |
| Facilities acquisition | -                    | -                    | (667,636)            | (651,631)            |
| Other                  | 143,112              | 155,679              | 3,428                | 3,785                |
| Interest costs         | 625,283              | 657,240              | (173,806)            | (139,849)            |
| <b>Total Expenses</b>  | <u>\$ 26,481,243</u> | <u>\$ 24,640,339</u> | <u>\$ 15,242,096</u> | <u>\$ 15,386,153</u> |

**Business-Type Activities**

The business-type activities include the food service operation. This program had total revenues of \$1,646,781 and expenses of \$1,681,528 for fiscal year 2015. Of the revenues, \$177,327 was charges for services, \$1,469,357 was from State and Federal grants and \$97 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

**The School District's Funds**

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$26.3 million and expenditures and other financing uses of \$25.7 million.

**General Fund-Budget Highlights**

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

For the General Fund, revenues were budgeted at \$18.9 million with actual amounts of \$19.4 million. Budgeted expenditures of \$19.4 million compare with actual expenditures of \$19.5 million.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal year 2015 the School District had \$28.2 million invested in land, buildings, vehicles and equipment and \$27.6 million in governmental activities. Table 4 shows fiscal year 2015 and 2014 balances.

**(Table 4)**  
**Capital Assets at June 30, 2015 and 2014**  
**(Net of Depreciation)**

|                            | Governmental<br>Activities |                     | Business-type<br>Activities |                   | Total<br>Primary Government |                     |
|----------------------------|----------------------------|---------------------|-----------------------------|-------------------|-----------------------------|---------------------|
|                            | 2015                       | 2014                | 2015                        | 2014              | 2015                        | 2014                |
| Land                       | \$ 948,795                 | \$ 948,795          | \$ -                        | \$ -              | \$ 948,795                  | \$ 948,795          |
| Construction in progress   | 149,287                    | -                   | -                           | -                 | 149,287                     | -                   |
| Buildings and improvements | 25,705,611                 | 26,448,351          | 547,266                     | 567,392           | 26,252,877                  | 27,015,743          |
| Technology                 | 110,615                    | 333,502             | 3,121                       | 4,960             | 113,736                     | 338,462             |
| Vehicles                   | 567,843                    | 760,472             | -                           | -                 | 567,843                     | 760,472             |
| General equipment          | 72,207                     | 78,922              | 109,190                     | 135,822           | 181,397                     | 214,744             |
| Total                      | <u>\$27,554,358</u>        | <u>\$28,570,042</u> | <u>\$ 659,577</u>           | <u>\$ 708,174</u> | <u>\$28,213,935</u>         | <u>\$29,278,216</u> |

Table 5 shows changes in capital assets for the years ended June 30, 2015 and 2014.

|                   | Governmental<br>Activities |                     | Business-type<br>Activities |                   | Total<br>Primary Government |                     |
|-------------------|----------------------------|---------------------|-----------------------------|-------------------|-----------------------------|---------------------|
|                   | 2015                       | 2014                | 2015                        | 2014              | 2015                        | 2014                |
| Beginning balance | \$28,570,042               | \$29,761,795        | \$ 708,174                  | \$ 756,924        | \$29,278,216                | \$30,518,719        |
| Additions         | 194,308                    | 32,637              | -                           | -                 | 194,308                     | 32,637              |
| Retirements       | (25,092)                   | 11,551              | -                           | -                 | (25,092)                    | 11,551              |
| Depreciation      | (1,184,900)                | (1,235,941)         | (48,597)                    | (48,750)          | (1,233,497)                 | (1,284,691)         |
| Ending balance    | <u>\$27,554,358</u>        | <u>\$28,570,042</u> | <u>\$ 659,577</u>           | <u>\$ 708,174</u> | <u>\$28,213,935</u>         | <u>\$29,278,216</u> |

### Debt

At June 30, 2015, the School District had \$17 million in bonds outstanding, of this amount \$7.5 million is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$1.3 million is due within one year.

### District Challenges for the Future

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

The School District has experienced consistent growth in student enrollment during the past year. The need to build a new high school will create more challenges for the School District. Depending on legislative appropriations, the expected timetable for building a new high school is 1 to 3 years.

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

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

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

### **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2015 - 2016 with a 2.8% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

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

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

## **BASIC FINANCIAL STATEMENTS**

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

| <b>Assets</b>  | Governmental<br>Activities | Business-<br>Type<br>Activities | Total               |
|--|----------------------------|---------------------------------|---------------------|
| <b>Current Assets</b>  |                            |                                 |                     |
| Cash and cash equivalents                                      | \$ 906,132                 | \$ 135,229                      | \$ 1,041,361        |
| Prepaid expenses   | 13,934                     |                                 | 13,934              |
| Inventory  |                            | 31,401                          | 31,401              |
| Receivables:   |                            |                                 |                     |
| Taxes-current  | 140,606                    |                                 | 140,606             |
| Taxes-delinquent   | 7,305                      |                                 | 7,305               |
| Other receivables  | 16,273                     |                                 | 16,273              |
| Intergovernmental-State  | 15,230                     |                                 | 15,230              |
| Intergovernmental-Indirect Federal                             | 428,772                    |                                 | 428,772             |
| <b>Total Current Assets</b>                                    | <b>1,528,252</b>           | <b>166,630</b>                  | <b>1,694,882</b>    |
| <b>Noncurrent Assets</b>                                       |                            |                                 |                     |
| Non-depreciable capital assets                                 | 1,098,082                  |                                 | 1,098,082           |
| Depreciable capital assets, net of<br>accumulated depreciation | 26,456,276                 | 659,577                         | 27,115,853          |
| <b>Total Noncurrent Assets</b>                                 | <b>27,554,358</b>          | <b>659,577</b>                  | <b>28,213,935</b>   |
| <b>Total Assets</b>  | <b>29,082,610</b>          | <b>826,207</b>                  | <b>29,908,817</b>   |
| <b>Deferred Outflows of Resources</b>                          |                            |                                 |                     |
| Deferred amount on debt refundings                             | 789,980                    |                                 | 789,980             |
| CERS pension contributions                                     | 460,808                    | 92,042                          | 552,850             |
| <b>Total Deferred Outflows of Resources</b>                    | <b>1,250,788</b>           | <b>92,042</b>                   | <b>1,342,830</b>    |
| <b>Liabilities</b>   |                            |                                 |                     |
| <b>Current Liabilities</b>                                     |                            |                                 |                     |
| Accounts payable   | 164,505                    | 3,132                           | 167,637             |
| Accrued payroll and related expenses                           | 192,588                    |                                 | 192,588             |
| Unearned revenue   | 174,164                    |                                 | 174,164             |
| Bond obligations   | 1,283,149                  |                                 | 1,283,149           |
| Capital leases   | 18,299                     |                                 | 18,299              |
| Compensated absences   | 116,776                    |                                 | 116,776             |
| Interest payable   | 121,283                    |                                 | 121,283             |
| <b>Total Current Liabilities</b>                               | <b>2,070,764</b>           | <b>3,132</b>                    | <b>2,073,896</b>    |
| <b>Noncurrent Liabilities</b>                                  |                            |                                 |                     |
| Bond obligations   | 15,509,308                 |                                 | 15,509,308          |
| Capital leases   | 131,643                    |                                 | 131,643             |
| Net pension liability - CERS                                   | 3,628,285                  | 724,715                         | 4,353,000           |
| Compensated absences   | 1,050,984                  |                                 | 1,050,984           |
| <b>Total Noncurrent Liabilities</b>                            | <b>20,320,220</b>          | <b>724,715</b>                  | <b>21,044,935</b>   |
| <b>Total Liabilities</b>                                       | <b>22,390,984</b>          | <b>727,847</b>                  | <b>23,118,831</b>   |
| <b>Deferred Inflows of Resources</b>                           |                            |                                 |                     |
| CERS net investment difference                                 | 405,088                    | 80,912                          | 486,000             |
| <b>Total Deferred Inflows of Resources</b>                     | <b>405,088</b>             | <b>80,912</b>                   | <b>486,000</b>      |
| <b>Net Position</b>  |                            |                                 |                     |
| Net investment in capital assets                               | 11,401,939                 | 659,577                         | 12,061,516          |
| Restricted   | 269,594                    |                                 | 269,594             |
| Unrestricted   | (4,134,207)                | (550,088)                       | (4,684,295)         |
| <b>Total Net Position</b>                                      | <b>\$ 7,537,326</b>        | <b>\$ 109,489</b>               | <b>\$ 7,646,815</b> |

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

HART COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2015

| FUNCTIONS/PROGRAMS                    | Expenses             | Program Revenues     |  |                                | Net (Expenses) Revenues and Changes in Net Position |                          |                     |
|---------------------------------------|----------------------|----------------------|--|--------------------------------|---|--------------------------|---------------------|
|                                       |                      | Charges For Services | Operating Grants & Contributions                 | Capital Grants & Contributions | Governmental Activities                             | Business-Type Activities | Total               |
| <b>Governmental Activities:</b>       |                      |                      |  |                                |   |                          |                     |
| Instruction                           | \$ 16,256,651        | \$ 800               | \$ 7,946,046                                     | \$ -                           | \$ (8,309,805)                                      | \$ -                     | \$ (8,309,805)      |
| Support services:                     |                      |                      |  |                                |   |                          |                     |
| Student                               | 1,253,150            |                      | 159,193  |                                | (1,093,957)   |                          | (1,093,957)         |
| Instruction staff                     | 1,129,494            |                      | 386,429  |                                | (743,065)   |                          | (743,065)           |
| District administrative               | 896,517              |                      | 64,389   |                                | (832,128)   |                          | (832,128)           |
| School administrative                 | 1,466,385            |                      | 326,701  |                                | (1,139,684)   |                          | (1,139,684)         |
| Business                              | 812,274              |                      | 80,326   |                                | (731,948)   |                          | (731,948)           |
| Plant operation and maintenance       | 1,877,574            |                      | 141,766  |                                | (1,735,808)   |                          | (1,735,808)         |
| Student transportation                | 1,779,071            |                      | 282,430  |                                | (1,496,641)   |                          | (1,496,641)         |
| Community service activities          | 241,732              |                      | 244,658  |                                | 2,926   |                          | 2,926               |
| Facility acquisition and construction |                      |                      |  | 667,636                        | 667,636   |                          | 667,636             |
| Other                                 | 143,112              |                      | 139,684  |                                | (3,428)   |                          | (3,428)             |
| Interest on long-term debt            | 625,283              |                      |  | 799,089                        | 173,806   |                          | 173,806             |
| <b>Total Governmental Activities</b>  | <b>26,481,243</b>    | <b>800</b>           | <b>9,771,622</b>                                 | <b>1,466,725</b>               | <b>(15,242,096)</b>                                 | <b>-</b>                 | <b>(15,242,096)</b> |
| <b>Business-Type Activities:</b>      |                      |                      |  |                                |   |                          |                     |
| Food service                          | 1,681,528            | 177,327              | 1,469,357  |                                |   | (34,844)                 | (34,844)            |
| <b>Total Business-Type Activities</b> | <b>1,681,528</b>     | <b>177,327</b>       | <b>1,469,357</b>                                 | <b>-</b>                       | <b>-</b>  | <b>(34,844)</b>          | <b>(34,844)</b>     |
| <b>Total Primary Government</b>       | <b>\$ 28,162,771</b> | <b>\$ 178,127</b>    | <b>\$ 11,240,979</b>                             | <b>\$ 1,466,725</b>            | <b>(15,242,096)</b>                                 | <b>(34,844)</b>          | <b>(15,276,940)</b> |
|                                       |                      |                      | <b>General Revenues:</b>                         |                                |   |                          |                     |
|                                       |                      |                      | Taxes:   |                                |   |                          |                     |
|                                       |                      |                      | Property taxes                                   |                                | 2,942,584   |                          | 2,942,584           |
|                                       |                      |                      | Motor vehicle taxes                              |                                | 406,386   |                          | 406,386             |
|                                       |                      |                      | Utility taxes                                    |                                | 1,213,786   |                          | 1,213,786           |
|                                       |                      |                      | Revenue in lieu of taxes                         |                                | 102,449   |                          | 102,449             |
|                                       |                      |                      | Other taxes                                      |                                | 13,446  |                          | 13,446              |
|                                       |                      |                      | Investment earnings                              |                                | 4,111   | 97                       | 4,208               |
|                                       |                      |                      | State and formula grants                         |                                | 10,520,200  |                          | 10,520,200          |
|                                       |                      |                      | Miscellaneous                                    |                                | 92,116  |                          | 92,116              |
|                                       |                      |                      | <i>Extraordinary item - KSBIT</i>                |                                | 360,644   |                          | 360,644             |
|                                       |                      |                      | Total general revenues and extraordinary item    |                                | 15,655,722  | 97                       | 15,655,819          |
|                                       |                      |                      | Change in net position                           |                                | 413,626   | (34,747)                 | 378,879             |
|                                       |                      |                      | Net position - beginning, as previously reported |                                | 10,867,010  | 891,926                  | 11,758,936          |
|                                       |                      |                      | Restatement for adoption of GASB 68              |                                | (3,743,310)   | (747,690)                | (4,491,000)         |
|                                       |                      |                      | Net position - beginning, as restated            |                                | 7,123,700   | 144,236                  | 7,267,936           |
|                                       |                      |                      | Net position - ending                            |                                | \$ 7,537,326  | \$ 109,489               | \$ 7,646,815        |

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

**FUND FINANCIAL STATEMENTS**

**HART COUNTY SCHOOL DISTRICT**

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2015

|  | General<br>Fund   | Special<br>Revenue<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|----------------------------|--------------------------------|--------------------------------|
| <b>Assets:</b>                             |                   |                            |                                |                                |
| Cash and cash equivalents                  | \$ 766,071        | \$ -                       | \$ 281,985                     | \$ 1,048,056                   |
| Prepaid expenses                           |                   |                            | 13,934                         | 13,934                         |
| Receivables:                               |                   |                            |                                |                                |
| Taxes - current                            | 140,606           |                            |                                | 140,606                        |
| Taxes - delinquent                         | 7,305             |                            |                                | 7,305                          |
| Other receivables                          | 2,572             | 13,701                     |                                | 16,273                         |
| Intergovernmental - State                  |                   | 15,230                     |                                | 15,230                         |
| Intergovernmental - Indirect Federal       |                   | 428,772                    |                                | 428,772                        |
| <b>Total Assets</b>                        | <u>\$ 916,554</u> | <u>\$ 457,703</u>          | <u>\$ 295,919</u>              | <u>\$ 1,670,176</u>            |
| <b>Liabilities and Fund Balances:</b>      |                   |                            |                                |                                |
| <b>Liabilities</b>                         |                   |                            |                                |                                |
| Accounts payable                           | \$ 101,393        | \$ 62,587                  | \$ 525                         | \$ 164,505                     |
| Cash overdraft                             |                   | 141,924                    |                                | 141,924                        |
| Accrued payroll and related expenses       | 192,588           |                            |                                | 192,588                        |
| Unearned revenue                           |                   | 174,164                    |                                | 174,164                        |
| <b>Total Liabilities</b>                   | 293,981           | 378,675                    | 525                            | 673,181                        |
| <b>Fund Balances</b>                       |                   |                            |                                |                                |
| Restricted                                 |                   | 75,001                     | 194,593                        | 269,594                        |
| Committed                                  | 51,799            |                            | 100,775                        | 152,574                        |
| Assigned                                   | 11,711            | 4,027                      | 26                             | 15,764                         |
| Unassigned                                 | 559,063           |                            |                                | 559,063                        |
| <b>Total Fund Balances</b>                 | <u>622,573</u>    | <u>79,028</u>              | <u>295,394</u>                 | <u>996,995</u>                 |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 916,554</u> | <u>\$ 457,703</u>          | <u>\$ 295,919</u>              | <u>\$ 1,670,176</u>            |

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

**HART COUNTY SCHOOL DISTRICT**

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

June 30, 2015

|   |                     |
|---|---------------------|
| Total fund balance per fund financial statements  | \$ 996,995          |
| Amounts reported for governmental activities in the statement of net position are different because:  |                     |
| Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.  | 27,554,358          |
| Governmental funds do not record deferred outflows of resources for pension contributions after the measurement date but those are reported on the statement of net position as deferred outflows of resources.   | 460,808             |
| Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources. | 789,980             |
| Governmental funds do not record deferred inflows of resources for changes in the net investment difference but those are reported on the statement of net position as deferred inflows of resources.             | (405,088)           |
| Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:                                      |                     |
| Bonds payable (net of discounts/premiums)   | (16,792,457)        |
| Capital leases payable  | (149,942)           |
| Interest payable  | (121,283)           |
| Compensated absences  | (1,167,760)         |
| Net pension liability - CERS  | <u>(3,628,285)</u>  |
| Net position for governmental activities  | <u>\$ 7,537,326</u> |

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2015

|   | General<br>Fund   | Special<br>Revenue<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|----------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>  |                   |                            |                                |                                |
| From local sources:                                       |                   |                            |                                |                                |
| Taxes:  |                   |                            |                                |                                |
| Property  | \$ 2,613,934      | \$ -                       | \$ 328,650                     | \$ 2,942,584                   |
| Motor vehicle   | 406,386           |                            |                                | 406,386                        |
| Utilities   | 1,213,786         |                            |                                | 1,213,786                      |
| Revenue in lieu of taxes                                  | 102,449           |                            |                                | 102,449                        |
| Other taxes   | 13,446            |                            |                                | 13,446                         |
| Earnings on investments                                   | 4,111             |                            |                                | 4,111                          |
| Other local revenues                                      | 154,326           | 72,067                     | 114,306                        | 340,699                        |
| Intergovernmental - State                                 | 14,769,994        | 1,404,034                  | 1,466,725                      | 17,640,753                     |
| Intergovernmental - Indirect Federal                      | 130,514           | 2,188,128                  |                                | 2,318,642                      |
| <b>Total Revenues</b>                                     | <b>19,408,946</b> | <b>3,664,229</b>           | <b>1,909,681</b>               | <b>24,982,856</b>              |
| <b>Expenditures:</b>                                      |                   |                            |                                |                                |
| Instruction   | 10,492,460        | 2,991,036                  | 13,505                         | 13,497,001                     |
| Support services:   |                   |                            |                                |                                |
| Student   | 1,214,183         | 31,098                     |                                | 1,245,281                      |
| Instruction staff   | 881,405           | 227,554                    |                                | 1,108,959                      |
| District administrative                                   | 865,624           | 264                        |                                | 865,888                        |
| School administrative                                     | 1,474,802         |                            |                                | 1,474,802                      |
| Business  | 794,521           |                            |                                | 794,521                        |
| Plant operation and maintenance                           | 2,064,884         | 5,821                      |                                | 2,070,705                      |
| Student transportation                                    | 1,560,590         | 65,968                     |                                | 1,626,558                      |
| Community service activities                              | 60                | 244,658                    |                                | 244,718                        |
| Other non-instruction                                     | 24,868            | 139,684                    |                                | 164,552                        |
| Debt service:   |                   |                            |                                |                                |
| Principal   |                   |                            | 1,205,000                      | 1,205,000                      |
| Interest  |                   |                            | 477,627                        | 477,627                        |
| <b>Total Expenditures</b>                                 | <b>19,373,397</b> | <b>3,706,083</b>           | <b>1,696,132</b>               | <b>24,775,612</b>              |
| <b>Excess (Deficit) of Revenues<br/>over Expenditures</b> | <b>35,549</b>     | <b>(41,854)</b>            | <b>213,549</b>                 | <b>207,244</b>                 |
| <b>Other Financing Sources (Uses):</b>                    |                   |                            |                                |                                |
| Proceeds from sale of capital assets                      | 6,552             |                            |                                | 6,552                          |
| Bond proceeds from revenue bonds                          | 360,644           |                            |                                | 360,644                        |
| Transfers in  |                   | 50,558                     | 883,538                        | 934,096                        |
| Transfers out   | (50,558)          |                            | (883,538)                      | (934,096)                      |
| <b>Total Other Financing Sources (Uses)</b>               | <b>316,638</b>    | <b>50,558</b>              | <b>-</b>                       | <b>367,196</b>                 |
| <b>Extraordinary item - KSBIT</b>                         | <b>(360,644)</b>  |                            |                                | <b>(360,644)</b>               |
| <b>Net Change in Fund Balances</b>                        | <b>(8,457)</b>    | <b>8,704</b>               | <b>213,549</b>                 | <b>213,796</b>                 |
| <b>Fund Balance, July 1, 2014</b>                         | <b>631,030</b>    | <b>70,324</b>              | <b>81,845</b>                  | <b>783,199</b>                 |
| <b>Fund Balance, June 30, 2015</b>                        | <b>\$ 622,573</b> | <b>\$ 79,028</b>           | <b>\$ 295,394</b>              | <b>\$ 996,995</b>              |

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

## HART COUNTY SCHOOL DISTRICT

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

Year Ended June 30, 2015

|   |                   |
|---|-------------------|
| Net change in total fund balances per fund financial statements   | \$ 213,796        |
| Amounts reported for governmental activities in the statement of activities are different because:  |                   |
| Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year. | (990,592)         |
| The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.  | (360,644)         |
| Bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.   | 1,205,000         |
| Capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.  | 21,440            |
| The difference between actuarial pension contributions to CERS and actual contributions made are recorded as adjustments in the statement of activities.  | 170,745           |
| In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.   | (25,092)          |
| Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.  | 360,644           |
| Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.  | <u>(181,671)</u>  |
| Change in net position of governmental activities   | <u>\$ 413,626</u> |

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2015

|  | <u>Food<br/>Service<br/>Fund</u> |
|--|----------------------------------|
| <b>Assets</b>  |                                  |
| <b><u>Current Assets</u></b>                                   |                                  |
| Cash and cash equivalents                                      | \$ 135,228                       |
| Inventory  | <u>31,401</u>                    |
| <b>Total Current Assets</b>                                    | 166,629                          |
| <b><u>Noncurrent Assets</u></b>                                |                                  |
| Depreciable capital assets, net of<br>accumulated depreciation | <u>659,577</u>                   |
| <b>Total Noncurrent Assets</b>                                 | <u>659,577</u>                   |
| <b>Total Assets</b>  | <u>826,206</u>                   |
| <b>Deferred Outflows of Resources</b>                          |                                  |
| CERS pension contributions                                     | <u>92,042</u>                    |
| <b>Total Deferred Outflows of Resources</b>                    | <u>92,042</u>                    |
| <b>Liabilities</b>   |                                  |
| <b><u>Current Liabilities</u></b>                              |                                  |
| Accounts payable   | <u>3,132</u>                     |
| <b>Total Current Liabilities</b>                               | <u>3,132</u>                     |
| <b><u>Noncurrent Liabilities</u></b>                           |                                  |
| Net pension liability - CERS                                   | <u>724,715</u>                   |
| <b>Total Noncurrent Liabilities</b>                            | <u>724,715</u>                   |
| <b>Total Liabilities</b>                                       | <u>727,847</u>                   |
| <b>Deferred Inflows of Resources</b>                           |                                  |
| CERS net investment difference                                 | <u>80,912</u>                    |
| <b>Total Deferred Inflows of Resources</b>                     | <u>80,912</u>                    |
| <b><u>Net Position</u></b>                                     |                                  |
| Net investment in capital assets                               | 659,577                          |
| Unrestricted   | <u>(550,088)</u>                 |
| <b>Total Net Position</b>                                      | <u>\$ 109,489</u>                |

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2015

|   | Food<br>Service<br>Fund  |
|---|--------------------------|
| <b>Operating Revenues:</b>                                |                          |
| Lunchroom sales   | \$ 160,471               |
| Other operating revenues                                  | 16,856                   |
| <b>Total Operating Revenues</b>                           | <u>177,327</u>           |
| <b>Operating Expenses:</b>                                |                          |
| Salaries and wages  | 845,699                  |
| Materials and supplies                                    | 726,739                  |
| Depreciation  | 48,597                   |
| Other operating expenses                                  | 60,493                   |
| <b>Total Operating Expenses</b>                           | <u>1,681,528</u>         |
| Operating loss  | (1,504,201)              |
| <b>Non-Operating Revenues (Expenses):</b>                 |                          |
| Federal grants  | 1,236,063                |
| Donated commodities                                       | 81,690                   |
| State on-behalf payments                                  | 138,510                  |
| State grants  | 13,094                   |
| Interest income   | 97                       |
| <b>Total Non-Operating Revenues (Expenses)</b>            | <u>1,469,454</u>         |
| Changes in net position                                   | <u>(34,747)</u>          |
| <b>Net Position, July 1, 2014, as previously reported</b> | 891,926                  |
| <b>Restatement for adoption of GASB 68</b>                | <u>(747,690)</u>         |
| <b>Net Position, July 1, 2014, as restated</b>            | <u>144,236</u>           |
| <b>Net Position June 30, 2015</b>                         | <u><u>\$ 109,489</u></u> |

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2015

|  | <u>Food Service<br/>Fund</u> |
|--|------------------------------|
| <b>Cash Flows from Operating Activities</b>  |                              |
| Cash received from:  |                              |
| Lunchroom sales  | \$ 172,657                   |
| Cash paid to/for:  |                              |
| Employees  | 741,294                      |
| Supplies   | 630,550                      |
| Other activities   | 60,493                       |
|  | <hr/>                        |
| <b>Net Cash Used by Operating Activities</b>   | (1,259,680)                  |
| <b>Cash flows from Non-Capital Financing Activities</b>                              |                              |
| Federal grants   | 1,236,063                    |
| State grants   | 13,094                       |
|  | <hr/>                        |
| <b>Net Cash Provided by Non-Capital Financing Activities</b>                         | 1,249,157                    |
| Receipt of interest income   | 97                           |
|  | <hr/>                        |
| <b>Net Cash Provided by Investing Financing Activities</b>                           | 97                           |
| Net decrease in cash and cash equivalents  | (10,426)                     |
| <b>Balances, beginning of year</b>   | <hr/> 145,654                |
| <b>Balances, end of year</b>   | <hr/> <u>\$ 135,228</u>      |
| Reconciliation of operating loss to net cash<br>used by operating activities:        |                              |
| Operating loss   | \$ (1,504,201)               |
| Adjustments to reconcile operating loss to net cash used<br>by operating activities: |                              |
| Depreciation   | 48,597                       |
| State on-behalf payments   | 138,510                      |
| Donated commodities  | 81,690                       |
| GASB 68 pension expense  | (34,105)                     |
| Change in assets and liabilities:  |                              |
| Unearned revenue   | (6,027)                      |
| Inventory  | 15,101                       |
| Accounts payable   | 755                          |
|  | <hr/>                        |
| <b>Net cash used by operating activities</b>   | <u>\$ (1,259,680)</u>        |
| <b>Schedule of non-cash transactions:</b>  |                              |
| Donated commodities received from federal government                                 | <u>\$ 81,690</u>             |
| State on-behalf payments   | <u>\$ 138,510</u>            |
| CERS Pensions  | <u>\$ 57,937</u>             |

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2015

|                                   | <u>Private Purpose<br/>Trust Funds</u> | <u>Agency<br/>Fund</u> |
|-----------------------------------|--|------------------------|
| <b>Assets</b>                     |  |                        |
| Cash and cash equivalents         | \$ 22,439                              | \$ 132,349             |
| Receivables                       |  | 4,564                  |
| <b>Total Assets</b>               | <u>22,439</u>                          | <u>136,913</u>         |
| <b>Liabilities</b>                |  |                        |
| Accounts payable                  |  | 3,410                  |
| Due to student groups             |  | 133,503                |
| <b>Total Liabilities</b>          | <u>-</u>                               | <u>136,913</u>         |
| <b>Net Position Held in Trust</b> | <u>\$ 22,439</u>                       | <u>\$ -</u>            |

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2015

|  | Private<br>Purpose<br>Trust<br>Funds |
|--|--------------------------------------|
| <b>Additions</b>                           |                                      |
| Net interest and investment gains (losses) | \$ 31                                |
|  | 31                                   |
| <b>Deductions</b>                          |                                      |
| Scholarships paid                          | -                                    |
|  | 31                                   |
| Change in net position                     | 31                                   |
| <b>Net Position, July 1, 2014</b>          | <u>22,408</u>                        |
| <b>Net Position, June 30, 2015</b>         | <u>\$ 22,439</u>                     |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

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

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

##### A. REPORTING ENTITY

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

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

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

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

###### Government-wide Financial Statements

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

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

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

#### Fund Financial Statements

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

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

#### Governmental Funds

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

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

#### Proprietary Funds

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

##### Fiduciary Funds

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

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

##### BASIS OF ACCOUNTING

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

##### Modified Accrual

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

##### Accrual

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

##### Revenue Recognition

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

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

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

#### **C. BUDGETARY POLICIES**

##### Budgetary Process

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

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

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

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

#### **D. ENCUMBRANCES**

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

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015

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

**E. CASH AND CASH EQUIVALENTS**

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

**F. INVENTORIES**

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

**G. PREPAID ITEMS**

Payments made that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. CAPITAL ASSETS**

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

##### I. LONG-TERM DEBT

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

##### J. COMPENSATED ABSENCES

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

##### K. ACCOUNTING ESTIMATES

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

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

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

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement was adopted during the fiscal year ended June 30, 2015 and required a restatement to net position for governmental activities and the food service fund.

In March 2014, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended June 30, 2015 and did not have an impact on the District's financial statements.

#### Recently Issued Accounting Pronouncements

In January 2014, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

**NOTE 2 – PROPERTY TAXES**

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.502 per \$100 valuation for real property, \$.502 per \$100 valuation for business personal property and \$.551 per \$100 valuation for motor vehicles.

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

**NOTE 3 – DEPOSITS**

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2015, \$2,218,222 of the District's bank balance of \$2,468,222 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

**NOTE 4 – INTERFUND ACTIVITIES**

The following transfers were made during the year:

| <u>From Fund</u>      | <u>To Fund</u>        | <u>Purpose</u>   | <u>Amount</u> |
|-----------------------|-----------------------|------------------|---------------|
| General               | Special Revenue       | Technology Match | \$ 50,558     |
| Nonmajor Governmental | Nonmajor Governmental | Debt Service     | 883,538       |

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

**NOTE 5 - CAPITAL ASSETS**

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

| Governmental Activities  | Balance<br>July 1, 2014 | Additions           | Deductions         | Balance<br>June 30, 2015 |
|--|-------------------------|---------------------|--------------------|--------------------------|
| Capital Assets Not Being Depreciated:                                |                         |                     |                    |                          |
| Land   | \$ 948,795              | \$ -                | \$ -               | \$ 948,795               |
| Construction in progress   | -                       | 149,287             |                    | 149,287                  |
| <b>Total Capital Assets Not Being Depreciated</b>                    | <b>948,795</b>          | <b>149,287</b>      | <b>-</b>           | <b>1,098,082</b>         |
| Capital Assets Being Depreciated:                                    |                         |                     |                    |                          |
| Buildings and improvements   | 37,766,404              |                     |                    | 37,766,404               |
| Technology equipment   | 2,723,228               | 24,618              | (47,773)           | 2,700,073                |
| Vehicles   | 3,560,766               |                     |                    | 3,560,766                |
| General equipment  | 1,089,466               | 20,403              | (50,149)           | 1,059,720                |
| <b>Total Capital Assets Being Depreciated<br/>at Historical Cost</b> | <b>45,139,864</b>       | <b>45,021</b>       | <b>(97,922)</b>    | <b>45,086,963</b>        |
| Less Accumulated Depreciation For:                                   |                         |                     |                    |                          |
| Buildings and improvements   | 11,318,053              | 742,740             |                    | 12,060,793               |
| Technology equipment   | 2,389,726               | 235,989             | (36,257)           | 2,589,458                |
| Vehicles   | 2,800,294               | 192,629             |                    | 2,992,923                |
| General equipment  | 1,010,544               | 13,542              | (36,573)           | 987,513                  |
| <b>Total accumulated depreciation</b>                                | <b>17,518,617</b>       | <b>1,184,900</b>    | <b>(72,830)</b>    | <b>18,630,687</b>        |
| <b>Total Other Capital Assets, net</b>                               | <b>27,621,247</b>       | <b>(1,139,879)</b>  | <b>(25,092)</b>    | <b>26,456,276</b>        |
| <b>Governmental Activities<br/>Capital Assets - Net</b>              | <b>\$ 28,570,042</b>    | <b>\$ (990,592)</b> | <b>\$ (25,092)</b> | <b>\$ 27,554,358</b>     |
| <b>Business-Type Activities</b>                                      |                         |                     |                    |                          |
| Capital Assets Being Depreciated:                                    |                         |                     |                    |                          |
| Buildings and improvements   | \$ 1,006,305            | \$ -                | \$ -               | \$ 1,006,305             |
| Technology equipment   | 12,651                  |                     | (2,165)            | 10,486                   |
| Food service equipment   | 482,789                 |                     |                    | 482,789                  |
| <b>Totals at historical cost</b>                                     | <b>1,501,745</b>        | <b>-</b>            | <b>(2,165)</b>     | <b>1,499,580</b>         |
| Less Accumulated Depreciation For:                                   |                         |                     |                    |                          |
| Buildings and improvements   | \$ 438,913              | \$ 20,126           | \$ -               | \$ 459,039               |
| Technology equipment   | 7,691                   | 1,839               | (2,165)            | 7,365                    |
| Food service equipment   | 346,967                 | 26,632              |                    | 373,599                  |
| <b>Total accumulated depreciation</b>                                | <b>793,571</b>          | <b>48,597</b>       | <b>(2,165)</b>     | <b>840,003</b>           |
| <b>Business-Type Activities<br/>Capital Assets - Net</b>             | <b>\$ 708,174</b>       | <b>\$ (48,597)</b>  | <b>\$ -</b>        | <b>\$ 659,577</b>        |

Depreciation was charged to governmental functions as follows:

|                         |                     |
|-------------------------|---------------------|
| Instruction             | \$ 893,318          |
| Student support         | 11,041              |
| Instructional staff     | 30,507              |
| District administration | 6,428               |
| School administration   | 8,505               |
| Business support        | 30,337              |
| Plant                   | 7,740               |
| Transportation          | 195,462             |
| Community services      | 1,562               |
| <b>Total</b>            | <b>\$ 1,184,900</b> |

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

**NOTE 6 – RISK MANAGEMENT**

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

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

**NOTE 7 – LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2015, is as follows:

|  | Balance<br>July 1, 2014 | Additions           | Reductions          | Balance<br>June 30, 2015 | Amounts<br>Due Within<br>One Year |
|--|-------------------------|---------------------|---------------------|--------------------------|-----------------------------------|
| <b>Governmental Activities:</b>                        |                         |                     |                     |                          |                                   |
| Bonds and Leases Payable:                              |                         |                     |                     |                          |                                   |
| Revenue bonds  | \$ 17,725,000           | \$ 360,644          | \$ 1,205,000        | \$ 16,880,644            | \$ 1,283,149                      |
| Capital leases   | 171,382                 |                     | 21,440              | 149,942                  | 18,299                            |
|  | <u>17,896,382</u>       | <u>360,644</u>      | <u>1,226,440</u>    | <u>17,030,586</u>        | <u>1,301,448</u>                  |
| Less Discounts and Premiums                            | (103,964)               |                     | 15,777              | (88,187)                 |                                   |
| Total Bonds and Leases Payable                         | <u>17,792,418</u>       | <u>360,644</u>      | <u>1,242,217</u>    | <u>16,942,399</u>        | <u>1,301,448</u>                  |
| Other Liabilities:                                     |                         |                     |                     |                          |                                   |
| Claims   | 360,644                 |                     | 360,644             | -                        |                                   |
| Net pension liability - CERS                           | -                       | 3,628,285           |                     | 3,628,285                |                                   |
| Compensated absences                                   | 1,133,748               | 123,556             | 89,544              | 1,167,760                | 116,776                           |
| Total Other Liabilities                                | <u>1,494,392</u>        | <u>3,751,841</u>    | <u>450,188</u>      | <u>4,796,045</u>         | <u>116,776</u>                    |
| Total Governmental Activities<br>Long-Term Liabilities | <u>\$ 19,286,810</u>    | <u>\$ 4,112,485</u> | <u>\$ 1,692,405</u> | <u>\$ 21,738,444</u>     | <u>\$ 1,418,224</u>               |
|  | Balance<br>July 1, 2014 | Additions           | Reductions          | Balance<br>June 30, 2015 | Amounts<br>Due Within<br>One Year |
| <b>Business Type Activities:</b>                       |                         |                     |                     |                          |                                   |
| Net pension liability - CERS                           | <u>\$ -</u>             | <u>\$ 724,715</u>   | <u>\$ -</u>         | <u>\$ 724,715</u>        | <u>\$ -</u>                       |

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences and KSBIT. The general fund and food service fund are primarily responsible for paying the net pension liability.

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

June 30, 2015

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

Bond Liabilities

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

| <u>Issue Date</u> | <u>Proceeds</u> | <u>Rate</u>   | <u>Issue Date</u> | <u>Proceeds</u> | <u>Rate</u>   |
|-------------------|-----------------|---------------|-------------------|-----------------|---------------|
| 2006              | \$ 3,200,000    | 3.25% - 4.00% | 2011              | 2,685,000       | 3.00% - 4.50% |
| 2006A             | 2,980,000       | 3.25% - 4.25% | 2011R             | 1,435,000       | 2.30% - 4.60% |
| 2006B             | 10,005,000      | 4.00% - 4.60% | 2013R             | 2,540,000       | 2.00% - 2.35% |
| 2008R             | 1,560,000       | 2.75% - 3.45% | 2014              | 360,644         | 2.00% - 3.25% |

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

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

On September 1, 2014, the District issued \$360,644 of bonds as part of the Kentucky Interlocal School Transportation Association Assessment Funding Certificates of Participation in order to pay for the District’s Kentucky School Board’s Insurance Trust assessment. The interest rate ranges from 2 to 3.35 percent.

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

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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

| Year      | Principal            | Interest            | KSFCC<br>Participation | District's<br>Portion |
|-----------|----------------------|---------------------|------------------------|-----------------------|
| 2016      | \$ 1,283,149         | \$ 452,602          | \$ 801,252             | \$ 934,499            |
| 2017      | 1,328,473            | 407,518             | 798,356                | 937,635               |
| 2018      | 1,359,150            | 363,681             | 795,767                | 927,064               |
| 2019      | 1,394,866            | 332,339             | 798,519                | 928,686               |
| 2020      | 1,310,624            | 292,403             | 654,188                | 948,839               |
| 2021-2025 | 7,009,382            | 961,504             | 3,211,026              | 4,759,860             |
| 2026-2030 | 2,900,000            | 276,614             | 642,838                | 2,533,776             |
| 2031      | 295,000              | 13,275              |                        | 308,275               |
|           | <u>\$ 16,880,644</u> | <u>\$ 3,099,936</u> | <u>\$ 7,701,946</u>    | <u>\$ 12,278,634</u>  |

Capital Lease Liabilities

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

Classes of Property

Buses

|                        |            |
|------------------------|------------|
| Gross amount of assets | \$ 195,279 |
|------------------------|------------|

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

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

|  |                   |
|--|-------------------|
| 2016   | 21,298            |
| 2017   | 21,273            |
| 2018   | 21,242            |
| 2019   | 21,340            |
| 2020   | 21,292            |
| 2021-2023                                      | <u>56,894</u>     |
| Total minimum lease payments                   | 163,339           |
| Less: Amount representing interest             | <u>(13,397)</u>   |
| Present Value of Net Minimum<br>Lease Payments | <u>\$ 149,942</u> |

Operating Leases

The District has an operating lease for computer equipment. Payments made in 2015 were \$99,600 and \$132,800 will be paid in 2016 and \$99,600 will be paid in 2017.

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

#### NOTE 8 – PENSION PLANS

##### Plan Descriptions

The Hart County School District participates in the Teachers' Retirement System of the State of Kentucky (KTRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. KTRS, which qualifies as a special funding situation under GASB 68, and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. KTRS' report may be obtained at [www.ktrs.ky.gov](http://www.ktrs.ky.gov). CERS' report may be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

##### Benefits Provided

*For Members Before July 1, 2008:*

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service.

Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation.

University employees receive monthly benefits equal to two percent (2%) of their final average salary for each year of credited service.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

#### NOTE 8 – PENSION PLANS – CONTINUED

*For Members On or After July 1, 2008:*

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

#### *Other Benefits:*

The System provides post-employment medical benefits to retirees. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

#### Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.105 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2015, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2015

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

**NOTE 8 – PENSION PLANS – CONTINUED**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$75,167,425.

The net pension liability 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 of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2014, the District's proportion was 0 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$3,683,357 and revenue of \$3,683,357 for support provided by the State. At June 30, 2015, the District reported no deferred outflows of resources and no deferred inflows of resources related to KTRS.

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:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.50 percent  |
| Salary increases          | 4.00 – 8.20 percent, including inflation                                  |
| Investment rate of return | 7.50 percent, net of pension plan investment expense, including inflation |

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 set back of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a log-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.

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

**NOTE 8 – PENSION PLANS – CONTINUED**

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| U.S. Equity        | 45%                      | 6.4%  |
| Non U.S. Equity    | 17%                      | 6.5%  |
| Fixed Income       | 24%                      | 1.6%  |
| High Yield Bonds   | 4%                       | 3.1%  |
| Real Estate        | 4%                       | 5.8%  |
| Alternatives       | 4%                       | 6.8%  |
| Cash               | 2%                       | 1.5%  |
| Total              | <u>100%</u>              |   |

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 5.23%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that 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 members until the 2036 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate (SEIR). On the Prior Measurement Date, the long-term expected rate of return of 7.50% on Plan investments was applied to periods before 2036 and the Municipal Bond Index Rate of 4.27% was applied to periods on or after 2036, resulting in an SEIR of 5.16%. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 5.23% was calculated using the Municipal Bond Index Rate as of the Measurement Date (4.35%). This change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

#### NOTE 8 – PENSION PLANS – CONTINUED

##### CERS

###### Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

###### Contributions

For the fiscal year ended June 30, 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2015, was 17.67 percent of annual creditable compensation. Contributions to the pension plan from the District were \$552,850.

###### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$4,353,000 for its proportionate share of the net pension liability. The net pension liability 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 was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.134164 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$348,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (1) Deferred outflows of resources for District contributions subsequent to the measurement date of \$552,850 and (2) Deferred inflows of resources for differences between expected and actual experience of \$486,000. The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$552,850 will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

**NOTE 8 – PENSION PLANS – CONTINUED**

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:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.50 percent  |
| Salary increases          | 4.5 percent, average, including inflation                                 |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected return on pension plan investments is reviewed as part of the regular experience studies prepared every five years for KRS. 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 lognormal 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 10-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.

| <u>Asset Class</u>         | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Domestic Equity            | 30%                      | 8.45%   |
| International Equity       | 22%                      | 8.85%   |
| Emerging Market Equity     | 5%                       | 10.50%  |
| Private Equity             | 7%                       | 11.25%  |
| Real Estate                | 5%                       | 7.00%   |
| Core US Fixed Income       | 10%                      | 5.25%   |
| High Yield US Fixed Income | 5%                       | 7.25%   |
| Non-US Fixed Income        | 5%                       | 5.50%   |
| Commodities                | 5%                       | 7.75%   |
| TIPS                       | 5%                       | 5.00%   |
| Cash                       | 1%                       | 3.25%   |
| Total                      | <u>100%</u>              |   |

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

**NOTE 8 – PENSION PLANS – CONTINUED**

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members 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 assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

|   | 1%<br>Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1%<br>Increase<br>(8.75%) |
|---|---------------------------|-------------------------------------|---------------------------|
| District's proportionate share of the net pension liability | 5,278,000                 | 4,353,000                           | 3,138,000                 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

**DEFERRED COMPENSATION**

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

#### NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2015, there were no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the District had \$75,001 restricted for grants in the special revenue fund and \$194,593 restricted for capital projects in the FSPK Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2015: \$51,799 for site-based carryforward in the General Fund and \$100,775 for school activities in the District Activity Fund.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amounts assigned related to encumbrances at June 30, 2015, were \$11,711 recorded in the General Fund, \$4,027 recorded in the Special Revenue Fund and \$26 recorded in the District Activity Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

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

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

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

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

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

The District also has construction commitments for on-going projects at June 30, 2015.

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$490,976. In August 2014, the District received an invoice for \$360,644 which was the amount expected to satisfy the claim. This amount was paid in September 2014. The amount to be paid was recorded as a current liability in the Statement of Net Position at June 30, 2014; however, the assessment was not due at June 30, 2014, for the fund financial statements. The item is also an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence. The assessment was recorded as an extraordinary item in the general fund for FY 2015. There was an adjustment in the Statement of Activities to reflect the change in the total assessment of \$360,644 that was previously expensed.

**NOTE 11 – DEFICIT OPERATING BALANCES**

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

|                   |    |        |
|-------------------|----|--------|
| General Fund      | \$ | 8,457  |
| Food Service Fund |    | 34,747 |

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

**NOTE 12 – ON-BEHALF PAYMENTS**

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2015 were as follows:

|                             |                     |
|-----------------------------|---------------------|
| Health                      | \$ 2,745,179        |
| Life                        | 4,748               |
| Admin                       | 32,570              |
| HRA                         | 115,763             |
| KTRS                        | 1,771,344           |
| Technology                  | 51,955              |
| Debt Service                | 799,089             |
| Less: Federal Reimbursement | <u>(333,253)</u>    |
| Total on-behalf             | <u>\$ 5,187,395</u> |

Recorded as follows:

|                   |                     |
|-------------------|---------------------|
| General Fund      | \$ 4,249,796        |
| Food Service Fund | 138,510             |
| Debt Service Fund | <u>799,089</u>      |
|                   | <u>\$ 5,187,395</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

**HART COUNTY SCHOOL DISTRICT**

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

GENERAL FUND

Year Ended June 30, 2015

|   | Original          | Final             | Actual            |
|---|-------------------|-------------------|-------------------|
| <b>Revenues:</b>                                      |                   |                   |                   |
| From local sources:                                   |                   |                   |                   |
| Taxes:  |                   |                   |                   |
| Property  | \$ 2,625,500      | \$ 2,641,000      | \$ 2,613,934      |
| Motor vehicle   | 399,000           | 410,000           | 406,386           |
| Utilities   | 1,125,000         | 1,185,000         | 1,213,786         |
| Revenue in lieu of taxes                              | 115,000           | 115,000           | 102,449           |
| Other taxes   | 15,000            | 15,000            | 13,446            |
| Earnings on investments                               | 9,000             | 6,000             | 4,111             |
| Other local revenues                                  | 36,000            | 82,467            | 154,326           |
| Intergovernmental - State                             | 14,526,161        | 14,331,348        | 14,769,994        |
| Intergovernmental - Indirect Federal                  | 85,000            | 85,000            | 130,514           |
| <b>Total Revenues</b>                                 | <b>18,935,661</b> | <b>18,870,815</b> | <b>19,408,946</b> |
| <b>Expenditures:</b>                                  |                   |                   |                   |
| Instruction   | 10,008,230        | 10,187,375        | 10,492,460        |
| Support services:                                     |                   |                   |                   |
| Student   | 1,331,762         | 1,254,167         | 1,214,183         |
| Instruction staff                                     | 905,243           | 919,527           | 881,405           |
| District administrative                               | 953,106           | 869,268           | 865,624           |
| School administrative                                 | 1,477,858         | 1,535,857         | 1,474,802         |
| Business  | 756,338           | 771,239           | 794,521           |
| Plant operation and maintenance                       | 2,004,988         | 1,982,797         | 2,064,884         |
| Student transportation                                | 1,650,644         | 1,648,511         | 1,560,590         |
| Community service activities                          | 700               | 700               | 60                |
| Other   | 556,792           | 342,403           | 24,868            |
| Facilities acquisition and construction               |                   |                   |                   |
| <b>Total Expenditures</b>                             | <b>19,645,661</b> | <b>19,511,844</b> | <b>19,373,397</b> |
| <b>Excess (Deficit) of Revenues over Expenditures</b> | <b>(710,000)</b>  | <b>(641,029)</b>  | <b>35,549</b>     |
| <b>Other Financing Sources (Uses):</b>                |                   |                   |                   |
| Proceeds from sale of capital assets                  | 10,000            | 10,000            | 6,552             |
| Bond proceeds from revenue bonds                      |                   |                   | 360,644           |
| Transfers in  |                   |                   |                   |
| Transfers out   |                   |                   | (50,558)          |
| <b>Total Other Financing Sources (Uses)</b>           | <b>10,000</b>     | <b>10,000</b>     | <b>316,638</b>    |
| <b>Extraordinary item - KSBIT</b>                     |                   |                   | <b>(360,644)</b>  |
| <b>Net Change in Fund Balance</b>                     | <b>(700,000)</b>  | <b>(631,029)</b>  | <b>(8,457)</b>    |
| <b>Fund Balance, July 1, 2014</b>                     | <b>700,000</b>    | <b>631,029</b>    | <b>631,030</b>    |
| <b>Fund Balance, June 30, 2015</b>                    | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ 622,573</b> |

**HART COUNTY SCHOOL DISTRICT**

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

SPECIAL REVENUE FUND

Year Ended June 30, 2015

|   | Original         | Final            | Actual           |
|---|------------------|------------------|------------------|
| <b>Revenues:</b>                                      |                  |                  |                  |
| Other local revenues                                  | \$ 4,600         | \$ 19,500        | \$ 72,067        |
| Intergovernmental - State                             | 1,112,132        | 1,339,763        | 1,404,034        |
| Intergovernmental - Indirect Federal                  | 2,409,201        | 2,117,700        | 2,188,128        |
| <b>Total Revenues</b>                                 | <b>3,525,933</b> | <b>3,476,963</b> | <b>3,664,229</b> |
| <b>Expenditures:</b>                                  |                  |                  |                  |
| Instruction   | 2,801,455        | 2,761,793        | 2,991,036        |
| Support services:                                     |                  |                  |                  |
| Student   | 91,438           | 30,478           | 31,098           |
| Instruction staff                                     | 203,823          | 233,358          | 227,554          |
| District administrative                               |                  |                  | 264              |
| Business  |                  | 4,145            | 5,821            |
| Plant operation and maintenance                       |                  | 57,450           | 65,968           |
| Student transportation                                |                  | 240,005          | 244,658          |
| Community service activities                          | 241,860          | 240,005          | 244,658          |
| Other non-instruction                                 | 187,357          | 191,907          | 139,684          |
| <b>Total Expenditures</b>                             | <b>3,525,933</b> | <b>3,519,136</b> | <b>3,706,083</b> |
| <b>Excess (Deficit) of Revenues over Expenditures</b> | <b>-</b>         | <b>(42,173)</b>  | <b>(41,854)</b>  |
| <b>Other Financing Sources (Uses):</b>                |                  |                  |                  |
| Transfers in  |                  | 35,812           | 50,558           |
| <b>Total Other Financing Sources (Uses)</b>           | <b>-</b>         | <b>35,812</b>    | <b>50,558</b>    |
| <b>Net Change in Fund Balance</b>                     | <b>-</b>         | <b>(6,361)</b>   | <b>8,704</b>     |
| <b>Fund Balance, July 1, 2014</b>                     | <b>-</b>         | <b>6,361</b>     | <b>70,324</b>    |
| <b>Fund Balance, June 30, 2015</b>                    | <b>\$ -</b>      | <b>\$ -</b>      | <b>\$ 79,028</b> |

**HART COUNTY SCHOOL DISTRICT**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

June 30, 2015

Last 10 Years \*

|   | <u>2015</u>  |           |
|---|--------------|-----------|
| Proportion of the net pension liability   | 0.134164%    |           |
| Proportionate share of the net pension liability                                  | \$ 4,353,000 |           |
| Covered - employee payroll  | \$ 3,077,935 | 3077935.4 |
| Proportionate share of the net pension liability as percentage of covered payroll | 141.4%       |           |
| Plan fiduciary net position as a percentage of the total pension liability        | 66.80%       |           |

\* Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

**HART COUNTY SCHOOL DISTRICT**

SCHEDULE OF CONTRIBUTIONS TO CERS

June 30, 2015

Last 10 Years \*

|  | <u>2015</u>    |
|--|----------------|
| Contractually required contribution (actuarially determined)         | \$ 552,850     |
| Contribution in relation to the actuarially determined contributions | <u>552,850</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>    |
| Covered employee payroll   | \$ 3,128,750   |
| Contributions as a percentage of covered employee payroll            | 17.67%         |

\* Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

**HART COUNTY SCHOOL DISTRICT**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2015

*Changes of benefit terms.* There were no changes in benefit terms.

*Changes of assumptions.* There were no changes in assumptions.

**SUPPLEMENTARY INFORMATION**

**HART COUNTY SCHOOL DISTRICT**

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

|  | District<br>Activity<br>Fund | SEEK<br>Capital<br>Outlay<br>Fund | FSPK<br>Fund      | Construction<br>Fund | Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|------------------------------|-----------------------------------|-------------------|----------------------|-------------------------|--|
| <b>Assets:</b>                                 |                              |                                   |                   |                      |                         |  |
| Cash and cash equivalents                      | \$ 101,326                   | \$ -                              | \$ 194,593        | \$ (13,934)          | \$ -                    | \$ 281,985                                 |
| Prepaid expenses                               |                              |                                   |                   | 13,934               |                         | 13,934                                     |
| <b>Total Assets</b>                            | <u>\$ 101,326</u>            | <u>\$ -</u>                       | <u>\$ 194,593</u> | <u>\$ -</u>          | <u>\$ -</u>             | <u>\$ 295,919</u>                          |
| <b>Liabilities and Fund Balances:</b>          |                              |                                   |                   |                      |                         |  |
| <b>Liabilities</b>                             |                              |                                   |                   |                      |                         |  |
| Accounts payable                               | \$ 525                       | \$ -                              | \$ -              | \$ -                 | \$ -                    | \$ 525                                     |
| <b>Total Liabilities</b>                       | <u>525</u>                   | <u>-</u>                          | <u>-</u>          | <u>-</u>             | <u>-</u>                | <u>525</u>                                 |
| <b>Fund Balances</b>                           |                              |                                   |                   |                      |                         |  |
| Restricted                                     |                              |                                   | 194,593           |                      |                         | 194,593                                    |
| Committed                                      | 100,775                      |                                   |                   |                      |                         | 100,775                                    |
| Assigned                                       | 26                           |                                   |                   |                      |                         | 26   |
| <b>Total Fund Balances</b>                     | <u>100,801</u>               | <u>-</u>                          | <u>194,593</u>    | <u>-</u>             | <u>-</u>                | <u>295,394</u>                             |
| <b>Total Liabilities and<br/>Fund Balances</b> | <u>\$ 101,326</u>            | <u>\$ -</u>                       | <u>\$ 194,593</u> | <u>\$ -</u>          | <u>\$ -</u>             | <u>\$ 295,919</u>                          |

**HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2015

|   | District<br>Activity<br>Fund | SEEK<br>Capital<br>Outlay<br>Fund | FSPK<br>Fund      | Construction<br>Fund | Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|------------------------------|-----------------------------------|-------------------|----------------------|-------------------------|--|
| <b>Revenues</b>   |                              |                                   |                   |                      |                         |  |
| From local sources:                                       |                              |                                   |                   |                      |                         |  |
| Property taxes  | \$ -                         | \$ -                              | \$ 328,650        | \$ -                 | \$ -                    | \$ 328,650                                 |
| Other local revenue                                       | 114,306                      |                                   |                   |                      |                         | 114,306                                    |
| Earnings on investments                                   |                              |                                   |                   |                      |                         | -  |
| Intergovernmental - State                                 |                              | 210,658                           | 456,978           |                      | 799,089                 | 1,466,725                                  |
| <b>Total Revenues</b>                                     | 114,306                      | 210,658                           | 785,628           | -                    | 799,089                 | 1,909,681                                  |
| <b>Expenditures</b>                                       |                              |                                   |                   |                      |                         |  |
| Instruction   | 13,505                       |                                   |                   |                      |                         | 13,505                                     |
| Support services:   |                              |                                   |                   |                      |                         |  |
| Debt service:   |                              |                                   |                   |                      |                         |  |
| Principal   |                              |                                   |                   |                      | 1,205,000               | 1,205,000                                  |
| Interest  |                              |                                   |                   |                      | 477,627                 | 477,627                                    |
| <b>Total Expenditures</b>                                 | 13,505                       | -                                 | -                 | -                    | 1,682,627               | 1,696,132                                  |
| <b>Excess (Deficit) of Revenues<br/>over Expenditures</b> | 100,801                      | 210,658                           | 785,628           | -                    | (883,538)               | 213,549                                    |
| Other Financing Sources (Uses)                            |                              |                                   |                   |                      |                         |  |
| Transfers in  |                              |                                   |                   |                      | 883,538                 | 883,538                                    |
| Transfers out   |                              | (210,658)                         | (672,880)         |                      |                         | (883,538)                                  |
| <b>Total Other Financing Sources (Uses)</b>               | -                            | (210,658)                         | (672,880)         | -                    | 883,538                 | -  |
| <b>Net Change in Fund Balances</b>                        | 100,801                      | -                                 | 112,748           | -                    | -                       | 213,549                                    |
| <b>Fund balance, July 1, 2014</b>                         | -                            | -                                 | 81,845            | -                    | -                       | 81,845                                     |
| <b>Fund balance, June 30, 2015</b>                        | <u>\$ 100,801</u>            | <u>\$ -</u>                       | <u>\$ 194,593</u> | <u>\$ -</u>          | <u>\$ -</u>             | <u>\$ 295,394</u>                          |

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2015

|                           | Bonnieville<br>Elementary | Cub Run<br>Elementary | Hart County<br>High School | LeGrande<br>Elementary | Memorial<br>Elementary | Munfordville<br>Elementary | Total<br>Agency<br>Fund |
|---------------------------|---------------------------|-----------------------|----------------------------|------------------------|------------------------|----------------------------|-------------------------|
| <b>Assets</b>             |                           |                       |                            |                        |                        |                            |                         |
| Cash and cash equivalents | \$ 15,055                 | \$ 9,973              | \$ 58,843                  | \$ 13,225              | \$ 15,972              | \$ 19,281                  | \$ 132,349              |
| Accounts receivable       | -                         | 25                    | 4,539                      | -                      | -                      | -                          | 4,564                   |
| <b>Total Assets</b>       | <u>\$ 15,055</u>          | <u>\$ 9,998</u>       | <u>\$ 63,382</u>           | <u>\$ 13,225</u>       | <u>\$ 15,972</u>       | <u>\$ 19,281</u>           | <u>\$ 136,913</u>       |
| <b>Liabilities</b>        |                           |                       |                            |                        |                        |                            |                         |
| Accounts payable          | \$ -                      | \$ 1,234              | \$ 2,014                   | \$ -                   | \$ 162                 | \$ -                       | \$ 3,410                |
| Due to student groups     | 15,055                    | 8,764                 | 61,368                     | 13,225                 | 15,810                 | 19,281                     | 133,503                 |
| <b>Total Liabilities</b>  | <u>\$ 15,055</u>          | <u>\$ 9,998</u>       | <u>\$ 63,382</u>           | <u>\$ 13,225</u>       | <u>\$ 15,972</u>       | <u>\$ 19,281</u>           | <u>\$ 136,913</u>       |

**HART COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES**  
**AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

| SCHOOL                  | CASH<br>BALANCE<br>July 1, 2014 | RECEIPTS          | DISBURSE-<br>MENTS | CASH<br>BALANCE<br>June 30, 2015 | RECEIVABLES<br>June 30, 2015 | ACCOUNTS<br>PAYABLE<br>June 30, 2015 | DUE TO<br>STUDENT<br>GROUPS<br>June 30, 2015 |
|-------------------------|---------------------------------|-------------------|--------------------|----------------------------------|------------------------------|--------------------------------------|--|
| Bonnieville Elementary  | \$ 22,338                       | \$ 15,356         | \$ 22,639          | \$ 15,055                        | \$ -                         | \$ -                                 | \$ 15,055                                    |
| Cub Run Elementary      | 7,017                           | 15,551            | 12,595             | 9,973                            | 25                           | 1,234                                | 8,764  |
| Hart County High School | 194,403                         | 256,729           | 392,289            | 58,843                           | 4,539                        | 2,014                                | 61,368                                       |
| LeGrande Elementary     | 19,860                          | 27,047            | 33,682             | 13,225                           | -                            | -                                    | 13,225                                       |
| Memorial Elementary     | 12,967                          | 44,197            | 41,192             | 15,972                           | -                            | 162                                  | 15,810                                       |
| Munfordville Elementary | 24,370                          | 35,293            | 40,382             | 19,281                           | -                            | -                                    | 19,281                                       |
|                         | <u>\$ 280,955</u>               | <u>\$ 394,173</u> | <u>\$ 542,779</u>  | <u>\$ 132,349</u>                | <u>\$ 4,564</u>              | <u>\$ 3,410</u>                      | <u>\$ 133,503</u>                            |

**HART COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES**  
**HART COUNTY HIGH SCHOOL**  
**YEAR ENDED JUNE 30, 2015**

| NAME OF ACTIVITY          | CASH<br>BALANCES<br>July 1, 2014 | RECEIPTS          | DISBURSE-<br>MENTS | CASH<br>BALANCES<br>June 30, 2015 | RECEIVABLE<br>June 30, 2015 | ACCOUNTS<br>PAYABLE<br>June 30, 2015 | DUE TO<br>STUDENT<br>GROUPS<br>June 30, 2015 |
|---------------------------|----------------------------------|-------------------|--------------------|-----------------------------------|-----------------------------|--------------------------------------|--|
| Academic Team             | \$ 780                           | \$ 710            | \$ 676             | \$ 814                            | \$ -                        | \$ -                                 | \$ 814                                       |
| Agriculture               | 48,292                           | 859               | 49,151             | -                                 | -                           | -                                    | -  |
| Art Club                  | 1,379                            | 4,314             | 4,522              | 1,171                             | -                           | -                                    | 1,171  |
| Athletic                  | 9,831                            | 51,312            | 57,255             | 3,888                             | 4,539                       | -                                    | 8,427  |
| Attendance Increase       | 4,224                            | -                 | 4,224              | -                                 | -                           | -                                    | -  |
| Beta Club                 | 2,469                            | 14,913            | 11,549             | 5,833                             | -                           | -                                    | 5,833  |
| Broadcasting              | 4,515                            | -                 | 4,515              | -                                 | -                           | -                                    | -  |
| Class of 2014             | 2,141                            | -                 | 2,141              | -                                 | -                           | -                                    | -  |
| Class of 2015             | 6,073                            | 3,670             | 9,519              | 224                               | -                           | 100                                  | 124  |
| Class of 2016             | 2,257                            | 13,260            | 5,217              | 10,300                            | -                           | 370                                  | 9,930  |
| Class of 2017             | 1,260                            | 600               | 172                | 1,688                             | -                           | -                                    | 1,688  |
| Class of 2018             | -                                | 865               | 18                 | 847                               | -                           | -                                    | 847  |
| Coke machines             | 3,692                            | 244               | 3,936              | -                                 | -                           | -                                    | -  |
| Concessions               | -                                | 914               | 914                | -                                 | -                           | -                                    | -  |
| Faculty Commission        | 441                              | 2,331             | 2,509              | 263                               | -                           | -                                    | 263  |
| FBLA                      | 1,195                            | 16,653            | 16,237             | 1,611                             | -                           | -                                    | 1,611  |
| FCCLA                     | -                                | 84                | 44                 | 40                                | -                           | 1,544                                | (1,504)                                      |
| FFA                       | 1,031                            | 32,024            | 32,017             | 1,038                             | -                           | -                                    | 1,038  |
| District Activity Fund    | -                                | 175,431           | 175,431            | -                                 | -                           | -                                    | -  |
| World Language            | 903                              | 1,002             | 713                | 1,192                             | -                           | -                                    | 1,192  |
| General Fund              | 18,093                           | 2,263             | 15,454             | 4,902                             | -                           | -                                    | 4,902  |
| Football Team             | -                                | 6,252             | 2,070              | 4,182                             | -                           | -                                    | 4,182  |
| Jr. Beta                  | 1,321                            | -                 | 1,321              | -                                 | -                           | -                                    | -  |
| Ind. Arts                 | 865                              | -                 | 865                | -                                 | -                           | -                                    | -  |
| Laptop Annual Fee         | 57,488                           | 16,539            | 74,027             | -                                 | -                           | -                                    | -  |
| Laptop - Standard Repair  | 370                              | -                 | 370                | -                                 | -                           | -                                    | -  |
| Laptop AUP Related Repair | 760                              | -                 | 760                | -                                 | -                           | -                                    | -  |
| Library                   | 277                              | 10                | 287                | -                                 | -                           | -                                    | -  |
| Lockers                   | 7,673                            | 1,066             | 8,739              | -                                 | -                           | -                                    | -  |
| National Honor Society    | 1,108                            | 2,875             | 1,974              | 2,009                             | -                           | -                                    | 2,009  |
| Parking                   | 533                              | 170               | 653                | 50                                | -                           | -                                    | 50   |
| Pep Club                  | 436                              | 2,920             | 2,055              | 1,301                             | -                           | -                                    | 1,301  |
| Regional Softball Tourney | -                                | -                 | -                  | -                                 | -                           | -                                    | -  |
| SADD HOPE                 | 1,108                            | 1,680             | 2,030              | 758                               | -                           | -                                    | 758  |
| Science Club              | 277                              | 563               | 796                | 44                                | -                           | -                                    | 44   |
| Stand Club                | 505                              | 800               | 231                | 1,074                             | -                           | -                                    | 1,074  |
| STLP                      | 85                               | -                 | -                  | 85                                | -                           | -                                    | 85   |
| Student Council           | 549                              | -                 | 210                | 339                               | -                           | -                                    | 339  |
| Teens Who Care            | -                                | 65                | -                  | 65                                | -                           | -                                    | 65   |
| Y Club                    | 541                              | 6,485             | 6,379              | 647                               | -                           | -                                    | 647  |
| Yearbook                  | 11,931                           | 14,228            | 11,681             | 14,478                            | -                           | -                                    | 14,478                                       |
| TOTALS                    | 194,403                          | 375,102           | 510,662            | 58,843                            | 4,539                       | 2,014                                | 61,368                                       |
| Transfers                 | -                                | 118,373           | 118,373            | -                                 | -                           | -                                    | -  |
| <b>TOTALS</b>             | <b>\$ 194,403</b>                | <b>\$ 256,729</b> | <b>\$ 392,289</b>  | <b>\$ 58,843</b>                  | <b>\$ 4,539</b>             | <b>\$ 2,014</b>                      | <b>\$ 61,368</b>                             |

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**HART COUNTY SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

| <u>FEDERAL GRANTOR/PASS-THROUGH<br/>GRANTOR / PROGRAM TITLE</u>        | <u>FEDERAL<br/>CFDA<br/>NUMBER</u> | <u>PASS<br/>THROUGH<br/>GRANTOR'S<br/>NUMBER</u> | <u>FEDERAL<br/>EXPENDITURES</u>                   |
|--|------------------------------------|--|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>                                  |                                    |  |   |
| Child Nutrition Cluster -  |                                    |  |   |
| Passed Through State Department of Education:                          |                                    |  |   |
| National School Lunch  | 10.555                             | 7750002-14<br>7750002-15                         | \$ 183,539<br>628,970                             |
| School Breakfast Program   | 10.553                             | 7760005-14<br>7760005-15                         | 92,735<br>329,820                                 |
| Non-Cash Assistance (Commodities)                                      |                                    |  |   |
| National School Lunch Program  | 10.555                             | 057502-02  | 81,690  |
| <b>TOTAL CHILD NUTRITION CLUSTER</b>                                   |                                    |  | <u>1,316,754</u>                                  |
| Passed Through State Department of Education:                          |                                    |  |   |
| State Administrative   | 10.560                             | 7850012-14                                       | 1,000   |
| <b>TOTAL U.S. DEPT. OF AGRICULTURE</b>                                 |                                    |  | <u>1,317,754</u>                                  |
| <u>APPALACHIAN REGIONAL COMMISSION</u>                                 |                                    |  |   |
| Passed Through State Department of Education                           |                                    |  |   |
| Appalachian Research, Technical Assistance, and Demonstration Projects | 23.011                             | 6882   | 1,725   |
| <b>TOTAL APPALACHIAN REGIONAL COMMISSION</b>                           |                                    |  | <u>1,725</u>                                      |
| <u>U.S. DEPARTMENT OF EDUCATION</u>                                    |                                    |  |   |
| Special Education Cluster -  |                                    |  |   |
| Passed Through State Department of Education:                          |                                    |  |   |
| Special Education - Grants to States                                   | 84.027                             | 3354<br>335A<br>3373<br>337A                     | 620<br>81,660<br>117<br>544,822                   |
|  |                                    |  | <u>627,219</u>                                    |
| Special Education - Preschool Grants                                   | 84.173                             | 3434<br>343A                                     | 9,773<br>25,735                                   |
|  |                                    |  | <u>35,508</u>                                     |
| <b>TOTAL SPECIAL EDUCATION CLUSTER</b>                                 |                                    |  | <u>662,727</u>                                    |
| <u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>                     |                                    |  |   |
| Passed Through Kentucky Council on Postsecondary Education             |                                    |  |   |
| Adult Education - State Grant Program                                  | 84.002                             | 3654<br>365A<br>3734<br>373A                     | 1,797<br>1,084<br>(40)<br>54,137                  |
|  |                                    |  | <u>56,978</u>                                     |
| Passed Through State Department of Education                           |                                    |  |   |
| Title I Grants to Local Educational Agencies                           | 84.010                             | 3104<br>3104M<br>310A<br>310AM                   | 103,510<br>2,030<br>973,797<br>15,081             |
|  |                                    |  | <u>1,094,418</u>                                  |
| Migrant Education - State Grant Program                                | 84.011                             | 3112S<br>3113<br>3113S                           | 217<br>4,531<br>55,240                            |
|  |                                    |  | <u>59,988</u>                                     |
| Vocational Education - Basic Grants to States                          | 84.048                             | 3481A<br>3483<br>3483A<br>3484<br>3484A<br>348A  | 1,806<br>1,623<br>327<br>8,698<br>1,565<br>39,002 |
|  |                                    |  | <u>53,021</u>                                     |

The accompanying notes are an integral part of this schedule.

**HART COUNTY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED**

YEAR ENDED JUNE 30, 2015

| <u>FEDERAL GRANTOR/PASS-THROUGH<br/>GRANTOR / PROGRAM TITLE</u>   | <u>FEDERAL<br/>CFDA<br/>NUMBER</u> | <u>PASS<br/>THROUGH<br/>GRANTOR'S<br/>NUMBER</u> | <u>FEDERAL<br/>EXPENDITURES</u> |
|---|------------------------------------|--|---------------------------------|
| Gaining Early Awareness and Readiness for Undergraduate Programs  | 84.334S                            | 6974<br>697A                                     | 406<br><u>5,714</u>             |
|   |                                    |  | <u>6,120</u>                    |
| Rural Education   | 84.358B                            | 3504<br>350A                                     | 253<br><u>48,535</u>            |
|   |                                    |  | <u>48,788</u>                   |
| Improving Teacher Quality - State Grants  | 84.367A                            | 4014<br>401A                                     | 6,488<br><u>165,832</u>         |
|   |                                    |  | <u>172,320</u>                  |
| Race to the Top   | 84.413A                            | 4521   | <u>43,381</u>                   |
| Passed Through Green River Regional Educational Cooperative<br>TARRA - Race to the Top - District Grants, Recovery Act        | 84.416                             | 436A   | <u>141,518</u>                  |
| TOTAL U.S. DEPARTMENT OF EDUCATION  |                                    |  | <u>2,339,259</u>                |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>   |                                    |  |                                 |
| Passed Through State Department of Education:   |                                    |  |                                 |
| Cooperative Agreements to Promote Adolescent Health Through School-<br>Based HIV/STD Prevention and School Based Surveillance | 93.079                             | OUTRE  | <u>400</u>                      |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  |                                    |  | <u>400</u>                      |
| TOTAL EXPENDITURES OF FEDERAL AWARDS  |                                    |  | <u>\$ 3,659,138</u>             |

The accompanying notes are an integral part of this schedule.

## **HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2015

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

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hart County School District under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Hart County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Hart County School District.

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

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

#### **NOTE C – FOOD DISTRIBUTION**

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

#### **NOTE D – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**HART COUNTY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015**

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

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**Financial Statements**

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

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

**Federal Awards**

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

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

---

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

---

Identification of major programs:

| <u>CFDA<br/>Number</u>           | <u>Federal Program or Cluster</u>    |
|----------------------------------|--------------------------------------|
| <b>DEPARTMENT OF AGRICULTURE</b> |                                      |
| 10.555                           | National School Lunch Program        |
| 10.553                           | School Breakfast Program             |
| <b>DEPARTMENT OF EDUCATION</b>   |                                      |
| <b>Special Education Cluster</b> |                                      |
| 84.027                           | Special Education - Grants to States |
| 84.173                           | Special Education - Preschool Grants |

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

Auditee qualified as low-risk auditee?                       yes     no

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**Section II – Financial Statement Findings**

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**No matters were reported.**

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

---

**No matters were reported.**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**HART COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2015

There were no prior audit findings.

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

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



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hart County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hart County School District's basic financial statements, and have issued our report thereon dated September 28, 2015.

### Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

We noted certain matters that we reported to management of Hart County School District in a separate letter dated September 28, 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Elizabethtown, Kentucky  
September 28, 2015

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

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## INDEPENDENT AUDITOR'S REPORT

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

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

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

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

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

## Report on Internal Control Over Compliance

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

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

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

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



Certified Public Accountants  
Elizabethtown, Kentucky  
September 28, 2015

**MANAGEMENT LETTER AND COMMENTS**

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



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

In planning and performing our audit of the basic financial statements of Hart County School District for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated September 28, 2015, contains our report on the District's internal control. This letter does not affect our report dated September 28, 2015, on the financial statements of the Hart County School District.

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

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

Certified Public Accountants  
Elizabethtown, Kentucky  
September 28, 2015

**HART COUNTY SCHOOL DISTRICT**

**COMMENTS**

June 30, 2015

**PRIOR YEAR UNCORRECTED COMMENTS**

**CUB RUN ELEMENTARY**

**PURCHASE ORDER FORMS**

We noted that check #326, dated 01/14/2015, written to XBS Ink, Inc. in the amount of \$1,056.13 from the General Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 01/08/2015 and attached invoices dated 11/24/2014, 10/28/2014, 09/18/2014, 08/25/2014, and 07/28/2014. Redbook requires that Purchase Order Forms be completed and submitted for approval before the purchase is made.

We noted that check #346, dated 06/30/2015, written to XBS Ink, Inc. in the amount of \$1,999.58 from the General Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 06/29/2015 and attached invoices dated 05/27/2015, 05/01/2015, 03/26/2015, 03/10/2015, 01/28/2015, and 12/22/2014. Redbook requires that Purchase Order Forms be completed and submitted for approval before the purchase is made.

**MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

**CURRENT YEAR COMMENTS**

**BONNIEVILLE ELEMENTARY SCHOOL**

**UNALLOWED PURCHASE**

We noted during review of disbursements that check #3033 in the amount of \$294.00 dated 9/12/2014 was remitted to the US Postmaster for the purchase of stamps. The Redbook disallows the purchase of operating items from student activity funds.

We noted during review of disbursements that check #3074 in the amount of \$133.96 dated 2/11/2015 was remitted to Barren Co. Business Supply for the purchase of ink. The Redbook disallows the purchase of operating items from student activity funds.

**MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

**HART COUNTY SCHOOL DISTRICT**

COMMENTS - CONTINUED

June 30, 2015

**CUB RUN ELEMENTARY SCHOOL**

TICKET SALES

We noted during review of ticket sales that Requisition and Report of Ticket Sales (form F-SA-1) was not properly completed for the basketball games held on 9/30/2014 and 11/14/2014. The form used was an out-of-date copy of the Redbook form, and only indicated that one individual was responsible for ticket sales, rather than the required two people responsible for selling and taking tickets.

MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

MULTIPLE RECEIPT FORM

We noted that the Multiple Receipt Form (form F-SA-6) being used for the 2014-2015 school year is not up-to-date. The version on file for client's deposits for the year only includes a column for the amount of the receipt, and does not require distinguishing between cash or checks received, making it impossible to determine if all checks were properly listed on deposit slips.

MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

UNALLOWABLE PURCHASES

We noted that check #326, dated 01/14/2015, written to XBS Ink, Inc. in the amount of \$1,056.13 from the General Fund, was for the six month payment due for a contracted copier. Redbook disallows the payment of operational expenses from student activity funds.

We noted that check #339, dated 04/03/2015, written to U.S. Postmaster, in the amount of \$98.00 from the General Fund, was for the purchase of postage stamps for school mailings. Redbook disallows the payment of operational expenses from student activity funds.

We noted that check #346, dated 06/30/2015, written to XBS Ink, Inc. in the amount of \$1,999.58 from the General Fund, was for the six month payment due for a contracted copier. Redbook disallows the payment of operational expenses from student activity funds.

MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

## **HART COUNTY SCHOOL DISTRICT**

### **COMMENTS - CONTINUED**

June 30, 2015

### **LEGRANDE ELEMENTARY SCHOOL**

#### **MULTIPLE RECEIPT FORMS**

We noted that the Multiple Receipt Form (form F-SA-6) that was attached to the deposit made on 10/13/2014 and on 10/24/14, did not contain student signatures or initials but instead these forms were filled out by the sponsor remitting the money.

#### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

#### **UNALLOWABLE PURCHASES**

We noted check #2797, dated 08/07/2014, in the amount of \$185.91, written to Big K-Mart, out of the General Fund was for miscellaneous office supplies including pens, letter trays, pens, envelopes, and storage bins. Redbook disallows the purchase of operational items from student activity funds.

#### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

#### **PURCHASE ORDER FORM**

We noted that check #2812, dated 08/26/2014, written in the amount of \$80.00 Lindsey Fields from the General Fund, had an attached invoice dated 08/23/2014 and a Purchase Order Form dated 08/25/2014. Redbook requires that Purchase Order Forms be completed and submitted to the principal prior to the purchase being made.

#### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

### **MEMORIAL ELEMENTARY SCHOOL**

#### **FUNDRAISERS**

We noted that there were no Inventory Control Worksheets (form F-SA-5) or Sales Collection Forms (form F-SA-17) completed for the concession stand held by the Beta Club.

We noted that there was not a Fundraiser Worksheet (form F-SA-2B) completed for either the Beta Club concession fundraiser or the Beta Club donut sale fundraiser.

#### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

#### **MISSING DOCUMENTATION**

We noted that the receipt on 01/20/2015, in the amount of \$323.67, was for monies received from the Beta Club concession sales and Beta Club donut sales. There was no documentation attached to the receipt and deposit slip.

#### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2015.

## **HART COUNTY SCHOOL DISTRICT**

### **COMMENTS**

June 30, 2015

### **MEMORIAL ELEMENTARY SCHOOL – CONTINUED**

#### DEPOSIT SLIPS

We noted, during the review of receipts, that the deposit slips that were completed for deposits made during fiscal year 2014-2015 did not contain receipt numbers.

#### MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

#### PURCHASE ORDER FORMS

We noted, during the review of disbursements, that the Purchase Order Forms (form F-SA-7) that were used during fiscal year 2014-2015 did not provide a line for the sponsor to sign. Redbook requires that a sponsor authorize that there are significant funds available for the requested funds. Therefore, we were unable to determine if any purchases were authorized by their corresponding sponsors.

#### MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

#### UNALLOWABLE PURCHASE

We noted that check #3819, dated 03/16/2015, written to School Specialty from the General Fund in the amount of \$168.98 was for the purchase of instructional supplies. Redbook disallows the purchase of operational items from student activity funds.

#### MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

### **HART COUNTY HIGH**

#### BOOSTERS/EXTERNAL SUPPORT ORGANIZATIONS

We noted that the Annual Financial Report (form F-SA-15A) submitted by the HC Baseball Booster Club for fiscal year 2014-2015 was not submitted until 08/04/2015.

We noted that there was not an Annual Financial Report (form F-SA-15A) submitted by the HCHS Archery Booster Club or the HC Cheerleader Booster Club for fiscal year 2014-2015.

#### MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.

#### INVENTORY CONTROL

We noted Inventory Control Worksheets (form F-SA- 5) were not completed for fiscal year 2014-2015 for the FFA's Greenhouse and Landscaping. Proper internal controls should be in place to control the sale of inventory items.

#### MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2015.