

HANCOCK COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

with

REPORT OF INDEPENDENT AUDITORS

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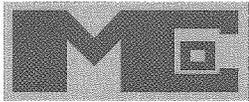
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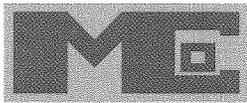
REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Hancock County School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. 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; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

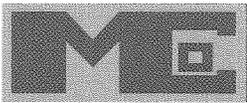
Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Hancock County School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2012. 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; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contracts – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control Over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material



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

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

Compliance

We have audited Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.



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

In planning and performing our audit of the basic financial statements of Hancock County School District (District) as of and for the year ended June 30, 2012, we considered the District's internal control over financial reporting and compliance as a basis for designing auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting or compliance.

During our audit we became aware of instances of immaterial noncompliance that are opportunities for strengthening internal controls. In addition, we followed up on other matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 10, 2012 on the financial statements of Hancock County School District.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
December 10, 2012

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 3 through 10, and 38 through 39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards, and the schedules of receipts, disbursements, and due to student groups are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
December 10, 2012

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) Year ended June 30, 2012

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending General Fund balance on June 30, 2012 was \$2,888,554. Of this amount, \$1,243,476 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$1,645,078.
- Property tax rates stayed the same at 55.6 cents as well as the motor vehicle tax rates at 38.1 cents for the 2011-12 school year.
- The General Fund had \$11 million in revenue excluding state on-behalf payments which primarily consists of SEEK (state funding), property, motor vehicle and utility taxes. Excluding interfund transfers and state on-behalf payments there were \$11 million in General Fund expenditures.
- District certified and classified staff salary scales remained the same as no increase was given other than step increases.
- A total of \$108,289 was paid in earned sick leave to those who retired during or at the end of the 2011-12 school year by the General Fund. A total of \$10,416 was paid in earned sick leave to those who retired during or at the end of the 2011-2012 school year by Food Service.
- Funding through the SEEK formula was supplemented with federal stimulus dollars for a third year. The guaranteed SEEK base was increased by \$35.00 per student over FY '11 which makes the per pupil funding \$3,903 per pupil. Even though the state did not cut SEEK for our District we received cuts in other areas such as our Special Revenue Fund. Many grants were cut in the middle of the year which meant that the General Fund had to cover unbudgeted expenses at the end of the 2011-2012 school year. The grants that were subjected to cuts were Family Resource Youth Service Center, Gifted & Talented, Safe Schools, and Professional Development.

- Lewisport Shopping Center was purchased for a total of \$730,000 and will be used as our vocational center for Hancock County High School. We received revenue in the amount of \$66,367 from rental income from the shopping center tenants.
- The Board continued their participation in the Advanced Kentucky AP Program at Hancock County High School for the 11-12 school year.
- The District continued with many grants that are recurring each year and received one new grant for 2011-2012 which was Race To The Top grant which will be used to implement each element of the Continuous Instructional Improvement Technology System (CIITS).

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$8.9 million as of June 30, 2012.

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

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

NET ASSETS FOR THE PERIOD ENDING JUNE 30, 2012

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

	Governmental		Business-Type		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Current Assets	3,602,804	3,863,915	416,769	401,968	4,019,573	4,265,883
Noncurrent Assets	21,474,459	20,531,988	369,759	420,216	21,844,218	20,952,204
TOTAL ASSETS	25,077,263	24,395,903	786,528	822,184	25,863,791	25,218,087
Current Liabilities	1,399,264	1,170,056	-	-	1,399,264	1,170,056
Noncurrent Liabilities	15,477,748	14,905,304	-	5,639	15,477,748	14,910,943
TOTAL LIABILITIES	16,877,012	16,075,360	-	5,639	16,877,012	16,080,999
Net Assets:						
Investment in capital assets (net of debt)	4,507,478	5,021,752	369,759	420,216	4,877,237	5,441,968
Restricted for:						
Capital Projects	215,063	245,162	-	-	215,063	245,162
Other Purposes	-	-	-	-	-	-
Unrestricted	3,477,710	3,053,629	416,769	396,329	3,894,479	3,449,958
TOTAL NET ASSETS	8,200,251	8,320,543	786,528	816,545	8,986,779	9,137,088

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Comments on Budget Comparisons

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

- Final staffing/salary adjustments were complete for the final budget phase.
- Assessment and ADA figures were finalized and adjustments made to SEEK and ad valorem taxes.
- Final grant awards were in place.
- County Retirement Employer Contributions increased .77% and Kentucky Teacher Retirement Employer Contributions began at a rate of .25%.
- Additional maintenance needs.
- iPad lease payment.
- Yearly increase in Nursing Services.
- Shopping Center/Tech Center rental income projection.
- Fringe Benefit rates that increased for 2011-12 fiscal year were CERS, KTRS, Worker's Compensation and Unemployment which meant increase cost to the school district.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2012.

	Governmental		Business-Type		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues:						
From general sources:						
Property Tax	2,772,589	2,768,987	-	-	2,772,589	2,768,987
Motor Vehicle Tax	200,206	187,136	-	-	200,206	187,136
Utility Tax	1,171,329	1,133,328	-	-	1,171,329	1,133,328
Other Tax	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Investments	119,957	163,008	10,325	10,943	130,282	173,951
Other Sources	318,676	380,712	946	881	319,622	381,593
Gain (Loss) Fixed Assets	-	-	-	-	-	-
State & Federal Grants	7,345,976	6,673,598	-	-	7,345,976	6,673,598
Program:						
Operating Grants	4,318,907	4,753,737	679,699	633,309	4,998,606	5,387,046
Capital Grants	699,759	643,750	-	-	699,759	643,750
Charges for Services	-	-	441,923	443,552	441,923	443,552
TOTAL REVENUES	16,947,399	16,704,256	1,132,893	1,088,685	18,080,292	17,792,941
Expenses:						
Instruction	9,809,601	9,901,337	-	-	9,809,601	9,901,337
Student Support	657,962	613,109	-	-	657,962	613,109
Instructional Support	964,657	929,147	-	-	964,657	929,147
District Administration	444,316	379,056	-	-	444,316	379,056
School Administration	1,052,968	1,078,581	-	-	1,052,968	1,078,581
Business Support	569,966	363,580	-	-	569,966	363,580
Plant Operations	1,350,771	898,874	-	-	1,350,771	898,874
Student Transportation	1,340,144	1,334,438	-	-	1,340,144	1,334,438
Other	177,547	848,002	-	-	177,547	848,002
Community Support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Debt Interest and Amortization	699,759	643,750	-	-	699,759	643,750
Food Service	-	-	1,123,562	1,045,386	1,123,562	1,045,386
Community Education/Child Care	-	-	39,348	10,213	39,348	10,213
TOTAL EXPENDITURES	17,067,691	16,989,874	1,162,910	1,055,599	18,230,601	18,045,473
Transfers In	-	-	-	159,244	-	159,244
Transfers Out	-	(159,244)	-	-	-	(159,244)
Change In Net Assets	(120,292)	(444,862)	(30,017)	192,330	(150,309)	(252,532)
Net Assets Beginning	8,320,543	8,765,405	816,545	624,215	9,137,088	9,389,620
Net Assets Ending	8,200,251	8,320,543	786,528	816,545	8,986,779	9,137,088

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *68% with approximately **32% coming from local sources.

*State Revenue \$9,027,331 divided by Total Revenue \$13,352,231 is equal to 67%

**Total Local \$4,294,993 divided by Total Revenue \$13,352,231 is equal to 32%

BUDGET ALLOCATION

Approximately 74% of the General Fund budget was expended for instruction/administration at the school level, some of which was directed by the Site-Based Decision Making Councils. Approximately 10% or \$1,093,222 of the funds not directly under control of SBDM was spent servicing children with special needs. The amount of funds going to children with special needs is derived from the total budgeted for all special education expenditures including salaries.

SCHOOL ALLOCATION

Regular instruction accounts for 63% of the school level expenditures.

Total instruction includes regular instruction such as salaries and instructional support such as support personnel and classroom assistants. Total instruction expenditures are \$7,895,488 regular instruction and \$626,582 instructional support staff or \$8,522,070. Total instruction divided by total expenses equals 63%.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,276,158, maintenance & operations \$1,298,101, business support \$533,201 and district administration of \$415,894 for a total central office support expense of \$3,523,354 or 26%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants remained fairly stable for the 2011-12 fiscal year.

Food Service Fund is categorized as a major fund. Food service is a business-type activity. This program had revenues of \$1,068,314 for fiscal year 2012. Net assets decreased \$55,248. The Board of Education continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

CURRENT ISSUES

Hancock County Schools continue to budget conservatively and adhere to the staffing policies that are currently in place. The 2011-12 fiscal year showed a decrease in ADA of 17.64 students which is a loss in revenue to the district of \$68,849. Due to the cut in SEEK, the District did not receive the funding produced by the growth in ADA from the previous year ADA (2010-2011 school year).

The State increased the SEEK funding base by \$35 per student. The SEEK formula was also supplemented with stimulus funds titled Education Jobs Funds. These funds saved the districts from losing thousands of dollars in state funding. For our District the amount of stabilization funds was \$334,734. The Board used these funds to continue funding non-SBDM positions and allowed the district to refrain from cutting staff. The Board also received a reduction funding for numerous grants in Special Revenue Fund.

Property assessment for the 2011-12 fiscal year had an increase of \$4.1 million. The Board approved the compensating rate with an additional .1 cent for exonerations which left the tax rates at the same level as 10-11 as well as the motor vehicle rate. For fiscal year 2011-2012 there was an increase in property tax revenue of \$3,602 and an increase in motor vehicle tax revenue of \$13,070.

Hancock County Schools is the 22nd highest ranked school district in the State of Kentucky in the state assessment criteria and the District ranks 12th among county districts. Hancock County Middle School continues to lead the District in scoring followed by South Hancock Elementary, Hancock County High School, and North Hancock Elementary School. North Hancock Elementary School is the District's only "Needs Improvement" school and this school will continue to work toward the goal of proficiency. Hancock County High School is ranked 7th for College and Career Readiness in the State of Kentucky. We feel our scores are a tribute to our teachers, parents, and students. They are all striving to do well.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$1,728,744 in contingency. This contingency is due largely in part to the Commonwealth Aluminum settlement. As of July 1, 2011 the balance in this account was \$1,213,662, 9% of the General Fund budget. The beginning fund balance for the fiscal year 2012 was \$3,012,294. Significant action by the state that impacts the finances of the District was the cut to not fund growth that our District had experienced in fiscal year 2010-11 and various cuts in Special Revenue fund grants.

The District currently participates in thirty federal and state grants. The total budget for these grants is \$1,504,164. Many of these grants are funded on a reimbursement basis. This requires the District to pay the expenses of the grant and then apply for reimbursement. At year end, the District was due \$4,389,648 for grant expenditures.

It is extremely important that the District continue to budget conservatively. The District receives approximately 51 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the State should be considered only an estimate of state revenue. If the State's revenue falls below their own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 20 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent or to Nick Boling, Treasurer, (270) 927-6914, or by mail at 83 State Route 271 N., Hawesville, Kentucky 42348.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,103,617	\$ 364,679	\$ 3,468,296
Receivables:			
Taxes	109,539	-	109,539
Intergovernmental – State	8,126	-	8,126
Intergovernmental – Federal	381,522	-	381,522
Inventory	-	52,090	52,090
Net bond issue costs	928,608	-	928,608
Net capital assets	<u>20,545,851</u>	<u>369,759</u>	<u>20,915,610</u>
Total assets	25,077,263	786,528	25,863,791
LIABILITIES			
Accrued liabilities	37,127	-	37,127
Deferred revenue	150,725	-	150,725
Current maturities of bond obligations	935,815	-	935,815
Current maturities of capital lease obligation	88,864	-	88,864
Current portion of accumulated sick leave	129,818	-	129,818
Interest payable	56,915	-	56,915
Noncurrent maturities of bond obligations	14,867,115	-	14,867,115
Noncurrent maturities of capital lease obligations	89,664	-	89,664
Noncurrent portion of accumulated sick leave	<u>520,969</u>	<u>-</u>	<u>520,969</u>
Total liabilities	<u>16,877,012</u>	<u>-</u>	<u>16,877,012</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,507,478	369,759	4,877,237
Restricted for:			
Capital expenditures	167,092	-	167,092
Capital expenditures/debt service	47,971	-	47,971
Unrestricted	<u>3,477,710</u>	<u>416,769</u>	<u>3,894,479</u>
Total net assets	<u>\$ 8,200,251</u>	<u>\$ 786,528</u>	<u>\$ 8,986,779</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year ended June 30, 2012

FUNCTION/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
Governmental activities							
Instruction	\$ 9,809,601	\$ -	\$ 2,696,551	\$ -	\$ (7,113,050)	\$ -	\$ (7,113,050)
Student support services	657,962	-	187,156	-	(470,806)	-	(470,806)
Instructional staff support services	964,657	-	422,394	-	(542,263)	-	(542,263)
District administration	444,316	-	41,783	-	(402,533)	-	(402,533)
School administration	1,052,968	-	368,968	-	(684,000)	-	(684,000)
Business support services	569,966	-	81,778	-	(488,188)	-	(488,188)
Plant operations and maintenance	1,350,771	-	113,869	-	(1,236,902)	-	(1,236,902)
Student transportation	1,340,144	-	255,961	-	(1,084,183)	-	(1,084,183)
Food service operations	4	-	-	-	(4)	-	(4)
Community services	173,304	-	150,447	-	(22,857)	-	(22,857)
Facilities acquisition and construction	4,239	-	-	-	(4,239)	-	(4,239)
Interest	699,759	-	-	699,759	-	-	-
Total governmental activities	17,067,691	-	4,318,907	699,759	(12,049,025)	-	(12,049,025)
Business-type activities							
Food service	1,123,562	381,887	679,699	-	-	(61,976)	(61,976)
Child care	27,065	52,110	-	-	-	25,045	25,045
Community education	12,283	7,926	-	-	-	(4,357)	(4,357)
Total business-type activities	1,162,910	441,923	679,699	-	-	(41,288)	(41,288)
Total primary government	<u>\$ 18,230,601</u>	<u>\$ 441,923</u>	<u>\$ 4,998,606</u>	<u>\$ 699,759</u>	(12,049,025)	(41,288)	(12,090,313)
General revenues							
Taxes:							
					2,772,589	-	2,772,589
					200,206	-	200,206
					1,171,329	-	1,171,329
					119,957	10,325	130,282
					7,316,069	-	7,316,069
					29,907	-	29,907
					318,676	946	319,622
					11,928,733	11,271	11,940,004
					(120,292)	(30,017)	(150,309)
					8,320,543	816,545	9,137,088
					<u>\$ 8,200,251</u>	<u>\$ 786,528</u>	<u>\$ 8,986,779</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2012

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Bond Interest and Redemption Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 2,888,554	\$ -	\$ 47,971	\$ -	\$ 167,092	\$ -	\$ 3,103,617
Receivables:							
Taxes	109,539	-	-	-	-	-	109,539
Intergovernmental – State	-	8,126	-	-	-	-	8,126
Intergovernmental – Federal	-	381,522	-	-	-	-	381,522
Due from Special Revenue Funds	<u>238,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,923</u>
Total assets	<u>\$ 3,237,016</u>	<u>\$ 389,648</u>	<u>\$ 47,971</u>	<u>\$ -</u>	<u>\$ 167,092</u>	<u>\$ -</u>	<u>\$ 3,841,727</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accrued liabilities	\$ 37,127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,127
Due to General Fund	-	238,923	-	-	-	-	238,923
Deferred revenue	-	150,725	-	-	-	-	150,725
Current portion of accumulated sick leave	<u>129,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,818</u>
Total liabilities	166,945	389,648	-	-	-	-	556,593
Fund balances							
Restricted for:							
Capital expenditures/ debt service	-	-	47,971	-	-	-	47,971
Capital expenditures	-	-	-	-	167,092	-	167,092
Committed to future:							
Sick leave	532,336	-	-	-	-	-	532,336
Assigned to purchase obligations	16,089	-	-	-	-	-	16,089
Unassigned	<u>2,521,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,521,646</u>
Total fund balances	<u>3,070,071</u>	<u>-</u>	<u>47,971</u>	<u>-</u>	<u>167,092</u>	<u>-</u>	<u>3,285,134</u>
Total liabilities and fund balances	<u>\$ 3,237,016</u>	<u>\$ 389,648</u>	<u>\$ 47,971</u>	<u>\$ -</u>	<u>\$ 167,092</u>	<u>\$ -</u>	<u>\$ 3,841,727</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

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

June 30, 2012

Total fund balances – governmental funds	\$ 3,285,134
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$30,776,938, and the accumulated depreciation is \$10,231,087.	20,545,851
Bond issue costs are not current financial resources and therefore are not reported as assets in governmental funds.	928,608
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net assets.	(15,802,930)
Capital lease obligations are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net assets.	(178,528)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(520,969)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	<u>(56,915)</u>
Total net assets – governmental activities	<u>\$ 8,200,251</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2012**

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Bond Interest and Redemption Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,489,617	\$ -	\$ -	\$ 282,972	\$ -	\$ -	\$ 2,772,589
Motor vehicle	200,206	-	-	-	-	-	200,206
Utilities	1,171,329	-	-	-	-	-	1,171,329
Earnings on investments	115,166	997	-	-	3,794	-	119,957
Other local	318,675	23,474	-	-	-	-	342,149
Intergovernmental – State	9,027,331	709,282	151,721	259,112	-	-	10,147,446
Intergovernmental – Federal	29,907	1,318,356	-	-	-	-	1,348,263
Total revenues	13,352,231	2,052,109	151,721	542,084	3,794	-	16,101,939
Expenditures							
Current:							
Instruction	7,895,488	1,187,072	-	-	-	-	9,082,560
Student support services	571,835	77,170	-	-	-	-	649,005
Instructional staff support services	626,582	318,038	-	-	-	-	944,620
District administration	415,894	-	-	-	-	-	415,894
School administration	821,932	209,800	-	-	-	-	1,031,732
Business support services	533,201	24,221	-	-	-	-	557,422
Plant operations and maintenance	1,298,101	-	-	-	-	-	1,298,101
Student transportation	1,276,158	115,705	-	-	-	-	1,391,863
Food service operations	4	-	-	-	-	-	4
Community services	19,767	150,447	-	-	-	-	170,214
Facilities acquisition and construction	-	-	-	-	734,239	-	734,239
Debt service	-	-	-	-	-	699,223	699,223
Total expenditures	13,458,962	2,082,453	-	-	734,239	699,223	16,974,877
(Deficit) excess of revenues (under) over expenditures	(106,731)	(30,344)	151,721	542,084	(730,445)	(699,223)	(872,938)
Other financing sources (uses)							
Proceeds from issuance of bonds	-	-	-	8,010,000	652,375	-	8,662,375
Payment to refund bond escrow agent	-	-	-	(8,010,000)	-	-	(8,010,000)
Operating transfers in	56,001	30,344	-	-	-	699,223	785,568
Operating transfers out	(139,734)	-	(103,750)	(542,084)	-	-	(785,568)
Total other financing sources (uses)	(83,733)	30,344	(103,750)	(542,084)	652,375	699,223	652,375
Net change in fund balance	(190,464)	-	47,971	-	(78,070)	-	(220,563)
Fund balance as of July 1, 2011	3,260,535	-	-	-	245,162	-	3,505,697
Fund balance as of June 30, 2012	\$ 3,070,071	\$ -	\$ 47,971	\$ -	\$ 167,092	\$ -	\$ 3,285,134

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2012

Net change in total fund balances – governmental funds	\$ (220,563)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are presented as assets in the statement of net assets and depreciated over their estimated useful lives in the statement of activities. The difference is the amount by which capital outlays (\$1,315,430) exceed depreciation expense (\$1,001,099) for the year.	314,331
Bond proceeds are other financing sources and uses in the governmental fund financial statements, but are not included as financing sources and uses in the statement of activities.	(8,685,000)
Bond issuance costs are reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds in the statement of activities.	628,140
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net assets and statement of activities, respectively.	7,583,966
Bond payments made by the Commonwealth of Kentucky are not recorded as revenue in the governmental fund financial statements, but are reported as revenue in the statement of activities.	450,957
Capital lease obligations are recognized as expenditures when paid in the governmental fund financial statements, but are recognized as liabilities in the statement of activities.	(178,528)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(13,595)</u>
Change in net assets – governmental activities	<u>\$ (120,292)</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

June 30, 2012

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	\$ 208,621	\$ 154,286	\$ 1,772	\$ 364,679
Inventory	<u>52,090</u>	<u>-</u>	<u>-</u>	<u>52,090</u>
Total current assets	260,711	154,286	1,772	416,769
Noncurrent assets				
Capital assets	657,980	-	-	657,980
Less accumulated depreciation	<u>288,221</u>	<u>-</u>	<u>-</u>	<u>288,221</u>
Total noncurrent assets	<u>369,759</u>	<u>-</u>	<u>-</u>	<u>369,759</u>
Total assets	630,470	154,286	1,772	786,528
NET ASSETS				
Invested in capital assets	369,759	-	-	369,759
Unrestricted	<u>260,711</u>	<u>154,286</u>	<u>1,772</u>	<u>416,769</u>
Total net assets	<u>\$ 630,470</u>	<u>\$ 154,286</u>	<u>\$ 1,772</u>	<u>\$ 786,528</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

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

Year ended June 30, 2012

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues				
Lunchroom sales	\$ 381,887	\$ -	\$ -	\$ 381,887
Tuition and fees	<u>-</u>	<u>52,110</u>	<u>7,926</u>	<u>60,036</u>
Total operating revenues	381,887	52,110	7,926	441,923
Operating expenses				
Salaries, wages, and benefits	620,366	9,140	402	629,908
Contract services	13,569	1,535	10,446	25,550
Materials and supplies	420,427	9,221	1,284	430,932
Depreciation	50,457	-	-	50,457
Other	<u>18,743</u>	<u>7,169</u>	<u>151</u>	<u>26,063</u>
Total operating expenses	<u>1,123,562</u>	<u>27,065</u>	<u>12,283</u>	<u>1,162,910</u>
Operating (loss) income	(741,675)	25,045	(4,357)	(720,987)
Nonoperating revenues				
Federal grants	563,369	-	-	563,369
State grants	116,330	-	-	116,330
Interest income	6,728	3,597	-	10,325
Other	<u>-</u>	<u>-</u>	<u>946</u>	<u>946</u>
Total nonoperating revenues	686,427	3,597	946	690,970
Change in net assets	(55,248)	28,642	(3,411)	(30,017)
Net assets as of July 1, 2011	<u>685,718</u>	<u>125,644</u>	<u>5,183</u>	<u>816,545</u>
Net assets as of June 30, 2012	<u>\$ 630,470</u>	<u>\$ 154,286</u>	<u>\$ 1,772</u>	<u>\$ 786,528</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS Year ended June 30, 2012

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities				
Cash received from:				
Lunchroom sales	\$ 381,887	\$ -	\$ -	\$ 381,887
Tuition and fees	-	52,110	7,926	60,036
Cash paid to/for:				
Employees	(520,041)	(9,140)	(402)	(529,583)
Contract services	(13,569)	(1,535)	(10,446)	(25,550)
Materials and supplies	(360,674)	(9,221)	(1,284)	(371,179)
Other	(18,743)	(7,169)	(151)	(26,063)
Net cash (used in) provided by operating activities	(531,140)	25,045	(4,357)	(510,452)
Cash flows from noncapital financing activities				
Government grants	526,422	-	-	526,422
Other	-	-	946	946
Net cash provided by noncapital financing activities	526,422	-	946	527,368
Cash flows from investing activities				
Receipt of interest income	6,728	3,597	-	10,325
Net cash provided by investing activities	6,728	3,597	-	10,325
Net increase (decrease) in cash	2,010	28,642	(3,411)	27,241
Cash as of July 1, 2011	206,611	125,644	5,183	337,438
Cash as of June 30, 2012	<u>\$ 208,621</u>	<u>\$ 154,286</u>	<u>\$ 1,772</u>	<u>\$ 364,679</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities				
Operating (loss) income	\$ (741,675)	\$ 25,045	\$ (4,357)	\$ (720,987)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation	50,457	-	-	50,457
Donated commodities	47,313	-	-	47,313
State on-behalf payments	105,964	-	-	105,964
Decrease in inventory	12,440	-	-	12,440
Increase in accumulated sick leave	(5,639)	-	-	(5,639)
Net cash (used in) provided by operating activities	<u>\$ (531,140)</u>	<u>\$ 25,045</u>	<u>\$ (4,357)</u>	<u>\$ (510,452)</u>
Schedule of noncash transactions				
Donated commodities received from:				
Federal government	\$ 47,313	\$ -	\$ -	\$ 47,313
State on-behalf payments	105,964	-	-	105,964

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
June 30, 2012

	<u>Student Activity Funds</u>
ASSETS	
Cash	\$ 184,680
Accounts receivable	<u>17,476</u>
Total assets	202,156
LIABILITIES	
Accounts payable	1,562
Due to student groups	<u>200,594</u>
Total liabilities	<u>202,156</u>
NET ASSETS	<u><u>\$ -</u></u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2012

1. Basis of presentation and summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The District has the following funds:

a. Governmental fund types

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

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

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

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

The Bond Interest and Redemption Fund is used to account for and report the accumulation of resources for, and payment of, bond debt and lease obligations, and interest. This is a major fund of the District.

b. Proprietary fund types

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

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

The District applies all governmental accounting standards, as well as the financial accounting standards, issued on or before November 30, 1989 to proprietary funds, unless those financial accounting standards conflict with or contradict governmental accounting standards.

c. Fiduciary fund type

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

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

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

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

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

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

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

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

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

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

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

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items 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. No prepaid expenses were recorded as of June 30, 2012.

Net bond issue costs – Costs associated with the issuance of bond obligations, including underwriter fees, fiscal and rating agency fees, paying agent fees, attorney fees, and bond deferrals on refunding, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances.

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 and are reported in the governmental activities column of the government-wide statement of net assets, 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 assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains capitalization thresholds of \$1,000, with the exception of computers and related equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

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

Deferred revenue – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2012.

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

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

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

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

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District generally spends committed funds first, assigned funds second, and unassigned funds last.

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

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

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds. These transactions are eliminated in the governmental and business-type activities columns of the statement of activities.

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

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

Subsequent events – The District's management has evaluated subsequent events through December 10, 2012, the date which the financial statements were available for issue. No subsequent events were of such a nature as to require disclosure.

New accounting pronouncements – In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and in March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 63 amends previous pronouncements and incorporates deferred outflows of resources and deferred inflows of resources, as defined in Concepts Statement No. 4, *Elements of Financial Statements*, into the required components of the statement of financial position's (formerly statement of net assets) residual measure and renames that measure net position, rather than net assets. Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously classified as assets and liabilities as deferred outflows and deferred inflows of resources. Statement No. 63 is effective for years beginning after December 15, 2011, and Statement No. 65 is effective for years beginning after December 15, 2012. The District has not determined the potential impact these pronouncements will have on its future financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 replaces previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of Statement No. 68 is to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. This 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 also provides related note disclosure and supplementary information requirements. Statement No. 68 is effective for years beginning after December 15, 2014. The District has not determined the potential impact, if any, this pronouncement will have on its future financial statements.

2. Deposits with financial institutions

As of June 30, 2012, the carrying amount of the District's deposits with financial institutions was \$3,652,976, and its bank balance totaled \$5,174,790. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

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

SEEK Capital Outlay Fund
School Construction Fund
Student Activity Funds

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

3. Taxes

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

The property tax rates assessed for the year ended June 30, 2012 were \$.556 per \$100 valuation for real property, \$.556 per \$100 valuation for business personal property, and \$.381 per \$100 valuation for motor vehicles.

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

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2012 is as follows:

<u>Governmental Activities</u>	Balance July 1, 2011	Additions	Dispositions	Balance June 30, 2012
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,027,170	-	-	1,027,170
Buildings and improvements	23,567,106	730,000	-	24,297,106
Technology equipment	1,700,744	388,753	-	2,089,497
Vehicles	1,999,350	196,677	-	2,196,027
General equipment	880,127	-	-	880,127
Other	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
Total cost	29,461,508	1,315,430	-	30,776,938
Less accumulated depreciation:				
Land improvements	558,277	33,885	-	592,162
Buildings and improvements	5,378,279	560,287	-	5,938,566
Technology equipment	1,255,596	225,927	-	1,481,523
Vehicles	1,450,361	121,504	-	1,571,865
General equipment	587,124	59,376	-	646,500
Other	<u>351</u>	<u>120</u>	<u>-</u>	<u>471</u>
Total accumulated depreciation	<u>9,229,988</u>	<u>1,001,099</u>	<u>-</u>	<u>10,231,087</u>
Governmental activities net capital assets	<u>\$ 20,231,520</u>	<u>\$ 314,331</u>	<u>\$ -</u>	<u>\$ 20,545,851</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 657,980	\$ -	\$ -	\$ 657,980
Less accumulated depreciation:				
Food service equipment	<u>237,764</u>	<u>50,457</u>	<u>-</u>	<u>288,221</u>
Business-type activities net capital assets	<u>\$ 420,216</u>	<u>\$ (50,457)</u>	<u>\$ -</u>	<u>\$ 369,759</u>

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

Instruction	\$ 798,324
Instructional staff support services	7,000
District administration	22,682
School administration	6,997
Business support services	4,851
Plant operations and maintenance	34,755
Student transportation	125,749
Community services	<u>741</u>
Total depreciation expense	<u>\$ 1,001,099</u>

5. Bonded debt and lease obligations

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

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

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004 Energy	\$ 2,310,000	3.00 – 4.38%
2004	10,615,000	1.70 – 5.14%
2007	3,585,000	3.45 – 4.18%
2009	653,459	1.00 – 3.25%
2010	1,850,000	1.50 – 4.50%
2012 (1 st issue)	675,000	3.75%
2012 (2 nd issue)	8,010,000	2.00 – 2.375%

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

In January 2012, the District issued revenue refunding bonds totaling \$8,010,000 bearing interest ranging from 2.00% to 2.375% to defease a portion of the 2004 issue totaling \$7,190,000. This transaction will result in future cash flow savings of approximately \$765,000 and an approximate economic gain (difference between the present value of the new debt service payments and the old debt service payments) of \$671,000. As of June 30, 2012, \$7,190,000 of defeased 2004 issue bond is outstanding and not included in the accompanying basic financial statements. The proceeds from the refunding issue have been placed in an escrow account to be used to service the related defeased debt through retirement in 2014.

In 2004, 2007, 2010, and 2012, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The District has also entered into an agreement with the Federal government. This agreement grants, under the Build American Bonds stimulus program, rebates up to approximately 35% of future debt service interest (approximately \$378,000 through 2030) scheduled for the 2010 issue. The table below sets forth the District's responsibility to make future debt service payments absent of those rebates, and the amount to be paid by the Commission, for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2012 for debt service (principal and interest) are as follows:

Fiscal Year Ending	Hancock County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2013	\$ 439,115	\$ 229,510	\$ 496,700	\$ 218,749	\$ 1,384,074
2014	449,197	214,913	512,877	213,068	1,390,055
2015	460,677	202,699	523,783	201,312	1,388,471
2016	481,767	189,894	540,155	188,903	1,400,719
2017	496,380	176,077	551,950	175,961	1,400,368
2018	508,008	161,355	550,805	162,607	1,382,775
2019	523,314	145,860	563,202	149,146	1,381,522
2020	429,809	130,734	560,191	135,548	1,256,282
2021	437,325	122,007	572,675	121,855	1,253,862
2022	444,403	112,990	590,597	107,753	1,255,743
2023	460,564	103,366	604,436	92,571	1,260,937
2024	470,701	92,754	619,299	76,372	1,259,126
2025	548,809	73,028	146,191	58,997	827,025
2026	574,076	54,274	155,924	49,746	834,020
2027	594,097	34,531	160,903	39,654	829,185
2028	615,752	14,047	144,248	29,742	803,789
2029	189,173	2,918	70,827	21,282	284,200
2030	197,751	1,500	72,249	10,876	282,376
2031	-	-	45,000	1,688	46,688
	<u>\$ 8,320,918</u>	<u>\$ 2,062,457</u>	<u>\$ 7,482,012</u>	<u>\$ 2,055,830</u>	<u>\$ 19,921,217</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2012 is as follows:

<u>Issue</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2012</u>
2004 Energy	\$ 1,375,000	\$ -	\$ 150,000	\$ 1,225,000
2004	8,040,000	-	7,605,000	435,000
2007	3,375,000	-	75,000	3,300,000
2009	582,602	-	69,672	512,930
2010	1,790,000	-	55,000	1,735,000
2012 (1 st issue)	-	675,000	25,000	650,000
2012 (2 nd issue)	-	8,010,000	65,000	7,945,000
Totals	<u>\$ 15,162,602</u>	<u>\$ 8,685,000</u>	<u>\$ 8,044,672</u>	<u>\$ 15,802,930</u>

6. Accumulated unpaid sick leave benefits

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

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

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2012 is as follows:

Balance as of July 1, 2011	\$ 706,742
Additions	62,750
Less payments	<u>118,705</u>
Balance as of June 30, 2012	650,787
Less current portion	<u>129,818</u>
Noncurrent portion	<u>\$ 520,969</u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2012 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. Kentucky Revised Statutes (KRS) require that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE).

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

Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS if hired prior to July 1, 2008, or 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries if hired before July 1, 2008, or 14.105% of salaries if hired on or after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

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

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

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

The District's total payroll was \$10,184,256, \$9,894,518, and \$9,848,102 for the years ended June 30, 2012, 2011, and 2010, respectively. The payroll for employees covered under KTRS was \$7,377,576, \$7,206,938, and \$7,133,594 for the years ended June 30, 2012, 2011, and 2010, respectively. The Commonwealth contributed \$926,760, \$904,303, and \$894,075 to KTRS for the years ended June 30, 2012, 2011, and 2010, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$44,264, \$44,003, and \$43,941 for the years ended June 30, 2012, 2011, and 2010, respectively, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death, disability, and health benefits to members and their beneficiaries. Under KRS provisions, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan members are required to contribute 5% of their annual covered compensation if hired before September 1, 2008, or 6% if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011, and 2010 were \$489,540, \$425,735, and \$407,802, respectively, and are equal to the required contribution for the related year.

The District also offers employees three options to participate in a 403(b) Plan under Section 403(b), 401(k), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate in the American Fidelity, Lincoln, or 403B ASP plans, and may contribute up to the maximum amount allowable by law. Members contributed approximately \$56,000 during the year ended June 30, 2012. The District does not contribute to these plans.

9. On-behalf payments for fringe benefits

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

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 929,760
Health and life insurance	<u>1,444,000</u>
Total	<u>\$ 2,373,760</u>

10. Insurance, risk management, and related activities

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

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

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. Deficit operating/fund balances

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

12. COBRA

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

13. Transfer of funds

The following transfers were made during the year ended June 30, 2012:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching Funds	\$ 30,344
Debt Service	General	Bond Interest and Redemption	Debt Service	109,390
Debt Service	FSPK	Bond Interest and Redemption	Debt Service	542,084
Debt Service	SEEK Capital Outlay	Bond Interest and Redemption	Debt Service	47,749
Operating	SEEK Capital Outlay	General	Administrative	56,001

14. Interfund receivables and payables

Interfund balances as of June 30, 2012 consist of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	Cash Flow	\$ 238,923

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,450,022	\$ 2,518,372	\$ 2,489,617	\$ (28,755)
Motor vehicle	184,629	195,422	200,206	4,784
Utilities	950,000	1,000,000	1,171,329	171,329
Earnings on investments	123,000	123,000	115,166	(7,834)
Other local	199,205	266,824	318,675	51,851
Intergovernmental – State	6,889,346	6,777,394	9,027,331	2,249,937
Intergovernmental – Federal	25,000	25,000	29,907	4,907
Total revenues	10,821,202	10,906,012	13,352,231	2,446,219
Expenditures				
Current:				
Instruction	6,479,726	6,492,440	7,895,488	(1,403,048)
Student support services	463,359	465,056	571,835	(106,779)
Instructional staff support services	501,318	461,407	626,582	(165,175)
District administration	572,664	577,543	415,894	161,649
School administration	886,015	689,346	821,932	(132,586)
Business support services	378,438	437,305	533,201	(95,896)
Plant operations and maintenance	1,084,827	1,224,280	1,298,101	(73,821)
Student transportation	1,036,286	1,055,893	1,276,158	(220,265)
Food service operation	-	-	4	(4)
Community services	20,242	20,447	19,767	680
Contingency	2,595,964	1,599,717	-	1,599,717
Debt service	109,390	109,390	-	109,390
Total expenditures	14,128,229	13,132,824	13,458,962	(326,138)
(Deficit) excess of revenues (under) over expenditures	(3,307,027)	(2,226,812)	(106,731)	2,120,081
Other financing sources (uses)				
Operating transfers in	-	56,001	56,001	-
Operating transfers out	(38,000)	(38,000)	(139,734)	(101,734)
Total other financing sources (uses)	(38,000)	18,001	(83,733)	(101,734)
Net change in fund balance	(3,345,027)	(2,208,811)	(190,464)	2,018,347
Fund balance as of July 1, 2011	3,260,535	3,260,535	3,260,535	-
Fund balance as of June 30, 2012	<u>\$ (84,492)</u>	<u>\$ 1,051,724</u>	<u>\$ 3,070,071</u>	<u>\$ 2,018,347</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
Year ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 997	\$ 997
Other local	-	-	23,474	23,474
Intergovernmental – State	583,153	726,377	709,282	(17,095)
Intergovernmental – Federal	<u>684,140</u>	<u>739,787</u>	<u>1,318,356</u>	<u>578,569</u>
Total revenues	1,267,293	1,466,164	2,052,109	585,945
Expenditures				
Current:				
Instruction	755,095	956,225	1,187,072	(230,847)
Student support services	62,988	57,876	77,170	(19,294)
Instructional staff support services	269,543	270,300	318,038	(47,738)
School administration	893	780	209,800	(209,020)
Business support services	-	-	24,221	(24,221)
Student transportation	67,030	73,856	115,705	(41,849)
Community services	<u>149,744</u>	<u>145,127</u>	<u>150,447</u>	<u>(5,320)</u>
Total expenditures	<u>1,305,293</u>	<u>1,504,164</u>	<u>2,082,453</u>	<u>(578,289)</u>
Deficit of revenues under expenditures	(38,000)	(38,000)	(30,344)	7,656
Other financing sources				
Operating transfers in	<u>38,000</u>	<u>38,000</u>	<u>30,344</u>	<u>(7,656)</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
MIDDLE AND ELEMENTARY SCHOOLS ACTIVITY FUNDS
Year ended June 30, 2012**

<u>School</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
North Hancock Elementary School	\$ 22,444	\$ 100,377	\$ 92,622	\$ 30,199	\$ 1,112	\$ 1,209	\$ 30,102
South Hancock Elementary School	32,979	26,091	22,919	36,151	-	-	36,151
Hancock County Middle School	<u>36,588</u>	<u>97,526</u>	<u>91,940</u>	<u>42,174</u>	<u>205</u>	<u>-</u>	<u>42,379</u>
Totals	<u>\$ 92,011</u>	<u>\$ 223,994</u>	<u>\$ 207,481</u>	<u>\$ 108,524</u>	<u>\$ 1,317</u>	<u>\$ 1,209</u>	<u>\$ 108,632</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS
Year ended June 30, 2012**

<u>Activity Fund</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
General	\$ 856	\$ 18,539	\$ 18,564	\$ (817)	\$ 14	\$ -	\$ -	\$ 14
Teachers lounge	-	1,840	5,257	3,526	109	-	80	29
Vending	370	1,379	2,385	636	-	-	-	-
Gumball	286	175	459	-	2	-	-	2
Break (concession)	8	-	-	(8)	-	-	-	-
Flower and gift fund	15	397	298	-	114	-	-	114
Gate receipts	5,454	60,979	7,206	(46,381)	12,846	-	-	12,846
Athletic Department	721	1,898	4,902	2,283	-	11,500	-	11,500
Punt pass kick	981	-	-	(981)	-	-	-	-
Athletic Director	1,285	-	1,451	166	-	-	-	-
Baseball	-	1,492	7,612	6,120	-	-	-	-
Boys basketball	-	320	4,215	3,895	-	-	-	-
Cross country	-	250	4,522	4,272	-	-	-	-
Football	-	539	14,831	14,292	-	-	-	-
Girls basketball	-	30	4,070	4,040	-	-	-	-
Golf	-	-	1,720	1,720	-	-	-	-
Softball	-	628	2,863	2,235	-	-	-	-
Tennis	-	930	2,408	1,478	-	-	-	-
Track	-	-	1,059	1,059	-	-	-	-

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2012**

<u>Activity Fund</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
Volleyball	\$ -	\$ -	\$ 4,586	\$ 4,586	\$ -	\$ -	\$ -	\$ -
PTO fundraiser	-	36,000	31,041	(4,945)	14	-	-	14
Golf tournament	1,486	4,341	5,152	-	675	-	-	675
District tournament	3,492	-	-	-	3,492	-	-	3,492
Christmas tournament	2,500	-	-	-	2,500	-	-	2,500
Athletic reserve account	5,700	-	-	-	5,700	-	-	5,700
Athletic long term	2,500	-	2,738	981	743	-	-	743
Academic team	138	586	743	19	-	-	-	-
Arts and Humanities	192	190	100	-	282	-	-	282
Beta Club	567	402	234	-	735	-	-	735
Cheerleaders	58	21,017	16,241	338	5,172	-	-	5,172
Cheer individual	-	7,396	6,248	(338)	810	-	-	810
Dedicated Teens	19	-	-	-	19	-	-	19
FBLA	565	1,935	2,591	91	-	-	-	-
FCA	312	-	-	-	312	-	-	312
FEA	536	-	-	-	536	-	-	536
FFA	1,471	16,612	15,795	(30)	2,258	-	-	2,258
FHA	120	721	1,045	750	546	-	-	546
Art Club	44	490	422	-	112	-	-	112

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2012**

<u>Activity Fund</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
Junior class	\$ 155	\$ 3,142	\$ 1,302	\$ (142)	\$ 1,853	\$ -	\$ -	\$ 1,853
Pep Club	104	110	-	-	214	-	-	214
Reading Club	1,306	213	-	-	1,519	-	-	1,519
Sp Educ.Learn Ctr	158	1,644	410	(580)	812	-	-	812
Social Studies Club	479	890	903	-	466	-	-	466
Student Council	88	-	50	-	38	-	-	38
TSA	647	1,267	-	-	1,914	-	-	1,914
Skills USA	2,472	1,197	1,127	(2,151)	391	-	-	391
HOSA	-	1,071	996	-	75	-	-	75
Band	-	94	79	(15)	-	-	-	-
Business	222	105	122	-	205	-	-	205
Chorus	1,816	14,190	10,059	-	5,947	-	-	5,947
Community Based								
Education	660	200	450	580	990	-	-	990
Health and PE	153	-	-	-	153	-	-	153
Home Economics	-	733	655	200	278	-	-	278
Theatre	3,033	5,839	4,384	-	4,488	-	-	4,488
Newspaper	55	-	-	(55)	-	-	-	-
Yearbook	4,803	7,379	7,677	(150)	4,355	-	-	4,355

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2012**

<u>Activity Fund</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
Speech and debate	\$ 155	\$ -	\$ 170	\$ 15	\$ -	\$ -	\$ -	\$ -
C D Mayfield Scholar	354	-	-	-	354	-	-	354
Scholarship	3,994	2,300	5,500	650	1,444	-	-	1,444
General equipment	332	-	413	84	3	-	-	3
In lieu of textbooks	1,812	-	1,738	137	211	-	-	211
Lost textbooks	183	-	-	(183)	-	-	-	-
Memorial Garden	47	75	37	-	85	-	-	85
Textbook rental	-	20,557	11,992	-	8,565	4,659	-	13,224
Field trips	360	1,299	950	-	709	-	-	709
Technology	-	746	392	-	354	-	-	354
Workbooks	192	260	497	45	-	-	-	-
Senior class	-	1,114	2,884	1,770	-	-	-	-
Miscellaneous	625	50	211	(464)	-	-	-	-
Anything Goes	600	-	788	188	-	-	-	-
Student/staff need	26	-	-	-	26	-	-	26
Sophomore class	-	711	369	-	342	-	-	342
Freshman class	-	402	204	-	198	-	-	198
Prom account	1,006	4,566	4,130	(1,062)	380	-	-	380
Relay for Life	-	453	453	-	-	-	-	-

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2012**

<u>Activity Fund</u>	<u>Cash July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2012</u>	<u>Accounts Receivable June 30, 2012</u>	<u>Accounts Payable June 30, 2012</u>	<u>Due to Student Groups June 30, 2012</u>
100 Club	\$ 27	\$ -	\$ -	\$ -	\$ 27	\$ -	\$ -	\$ 27
Summer school	1,452	350	952	-	850	-	273	577
KOSSA	168	-	274	120	14	-	-	14
After prom	847	1,025	1,475	(12)	385	-	-	385
Math department	9	725	725	-	9	-	-	9
Fletcher Thrasher S	736	-	-	(500)	236	-	-	236
Landscape	19	-	748	729	-	-	-	-
Popcorn sales	217	-	-	(217)	-	-	-	-
Autism Awareness	74	-	100	26	-	-	-	-
Challenge Day	625	4,250	4,500	-	375	-	-	375
IT scholarship	-	-	1,100	2,000	900	-	-	900
Totals	<u>\$ 59,687</u>	<u>\$ 256,043</u>	<u>\$ 239,574</u>	<u>\$ -</u>	<u>\$ 76,156</u>	<u>\$ 16,159</u>	<u>\$ 353</u>	<u>\$ 91,962</u>

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100002-11 3100000-10	\$ 174,244 <u>78,743</u>
Subtotal			<u>252,987</u>
Special Education	84.027	3810002-11 3810002-10 3810002-09	305,042 10,377 <u>7,443</u>
Subtotal			<u>322,862</u>
Special Education Preschool	84.173	3800002-11 3800002-10	1,276 <u>138</u>
Subtotal			<u>1,414</u>
Vocational Education Basic	84.048	4621232-11 4621132-10 4621032-09	6,418 2,373 <u>257</u>
Subtotal			<u>9,048</u>
Improving Teacher Quality	84.367	3230002-11 3230002-10	46,913 <u>19,937</u>
Subtotal			<u>66,850</u>
Tech-Prep Education	84.243	4631180-10	3,775
Adult Education	84.002	3651 3731 3732 3732S	8,609 29 21,600 <u>1,050</u>
Subtotal			<u>31,288</u>
21 st Century Community Learning Centers	84.287	3400002-09	251,151

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Education Jobs Fund*	84.410	EJOB00-10	\$ 334,734
Special Education*	84.391	4810002-09	34,087
Special Education Preschool*	84.392	4800002-09	<u>10,160</u>
Total U.S. Department of Education			1,318,356
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-12	278,887
		7750002-11	<u>79,812</u>
Subtotal			358,699
National School Breakfast Program	10.553	7760005-12	125,841
		7760005-11	<u>31,516</u>
Subtotal			<u>157,357</u>
Total U.S. Department of Agriculture			<u>516,056</u>
Total cash expenditures			1,834,412
Noncash expenditures			
<u>U.S. Department of Agriculture</u>			
Food Donation	10.555	Direct	<u>47,313</u>
Total federal expenditures			<u>\$ 1,881,725</u>

* American Recovery and Reinvestment Act (ARRA) funds.

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

1. Basis of presentation

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

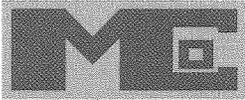
2. Food donation

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

3. Program clusters

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

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Child Nutrition	10.555/10.553	\$ 563,369
Special Education	84.027/84.173/84.391/84.392	368,523



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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Hancock County School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2012. 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; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contracts – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control Over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency (2012-1) described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies that we consider to be significant deficiencies as defined above other than the material weakness (2012-1) described in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 *Appendix II to the Independent Auditor's Contract – State Audit Requirements*.

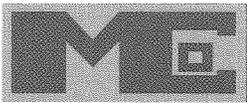
We noted certain matters that we reported to the District's management in a separate letter dated December 10, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
December 10, 2012



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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

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

Compliance

We have audited Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Hancock 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, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
December 10, 2012

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section I – Summary of Auditor Results

Financial Statements

Type of auditors' report issued	Unqualified		
Internal control over financial reporting:			
Material weakness identified	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statement notes	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553	Child Nutrition
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B program \$ 300,000

Auditee qualified as low risk Yes No

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED Year ended June 30, 2012

Section II – Financial Statement Findings

Material Weakness – 2012-1

Statement of deficiency: An effective internal control system over financial reporting requires all aspects of the closing of the annual financial statements to be performed by management in a timely and efficient manner. During the current year, management was not able to perform this function in a timely and efficient manner without outside assistance. This resulted in a request for extended time to complete preparation of the June 30, audited financial statements. This extended time exceeded the prescribed due date of November 15 mandated by the Kentucky Department of Education.

Criteria for deficiency: Closing of the annual financial statements should be performed in a timely and efficient manner.

Cause of the deficiency: The District hired an accounting personnel officer who previously had not performed these duties.

Effect of the deficiency: The annual audited financial statements were not completed within the Kentucky Department of Education's prescribed time-frame.

Recommendation for correction: We recommend the District strive to meet this time-frame in the future.

Board response: The new accounting manager had never participated or been involved in the overseeing of an audit before this year. And due to lack of any training on gathering audit information it was difficult to get all information in a timely manner. It was determined jointly between the school district and the audit firm that it would be the best decision to ask for an extension so that the accounting manager for the District could seek assistance from other finance officers in surrounding districts. The District will strive and achieve in making a successful and timely audit in the upcoming year.

Section III – Federal Award Findings

No matters to report.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2012

There were no prior year audit findings.



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC

Suite 200

9100 Shelbyville Rd

Louisville, KY 40222

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

In planning and performing our audit of the basic financial statements of Hancock County School District (District) as of and for the year ended June 30, 2012, we considered the District's internal control over financial reporting and compliance as a basis for designing auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting or compliance.

During our audit we became aware of instances of immaterial noncompliance that are opportunities for strengthening internal controls. In addition, we followed up on other matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 10, 2012 on the financial statements of Hancock County School District.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
December 10, 2012

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2012**

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DISTRICT WIDE

Internal control

Follow-up on Prior Year Finding

Prior year finding: During our previous audit, we noted a lack of proper segregation of duties in the cash disbursements cycle given the Finance Officer had access to general ledger recording, preparation of bank reconciliations, and issuance of bank checks on behalf of the District.

Current year follow-up: No similar instance was noted in the current year.

Prior year finding: During our previous audit, we noted the Hancock County High School was insured for \$214.17 per square foot. The high school was required to be insured for \$217.10 per square foot according to Kentucky Department of Education guidelines.

Current year follow-up: No similar instance was noted in the current year.

Current Year Finding

Statement of deficiency: Per KRS 65.944, 160.160 and 702 KAR 3:300 all leases in excess of \$100,000 must be reviewed by the Kentucky Department of Education's Division of District Support and approved by the Commissioner of Education. Technology lease agreements of any amount must be reviewed by the Division of District Support and approved by appropriate personnel in Kentucky Department of Education's Office of Knowledge and Information Data Services.

Criteria for deficiency: The District entered into a lease to acquire computer equipment totaling approximately \$269,000. The District did not have documentation for approval of the lease from the Kentucky Department of Education.

Cause of the deficiency: District could not provide approval from the Kentucky Department of Education.

Effect of the deficiency: The district is not in compliance with Kentucky Revised Statutes as it relates to leases and debt.

Recommendation for correction: The District should become aware of Kentucky Revised Statutes and Kentucky Administrative Regulations related to leases and debt.

Board response: The District was unaware of any approval that needed to be obtained from the Kentucky Department of Education for the lease agreement. When it was discovered by the auditors that we had not received prior approval for the lease agreement the District Technology Coordinator began emailing Jessica Abbott at the Division of Engineering and Management to get either proper approval or a waiver for the process. The District Technology Coordinator has tried emailing numerous times and has still not received the information that he has requested. The District will continue to be in contact to obtain the necessary information and approval for the lease agreement. The District will seek prior approval for any lease agreements that are entered into in the future that are for more than \$100,000 to make sure we are in compliance with Kentucky Revised Statutes.

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

South Hancock Elementary School

Follow-up on Prior Year Findings

Prior year comment: During our previous audit, we noted the purchase of First Aid and CPR training for teachers were made using school activity funds. Operating purchases should be made with District funds.

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

Current Year Finding

Statement of deficiency: The School did not follow Accounting Procedures for Kentucky School Activity Funds (Redbook) with regard to two purchase orders.

Criteria for deficiency: The School did not obtain an approved purchase order for two purchases prior to payment.

Cause of the deficiency: The sponsor purchased supplies without obtaining a purchase order.

Effect of the deficiency: The proper Kentucky Department of Education Redbook procedures for the purchase of goods was not followed.

Recommendation for correction: We recommend the District follow applicable Redbook procedures.

Board response: The District will discuss with South Hancock Elementary School personnel to rectify and prevent this issue from happening again. The accounting manager will work with the bookkeeper and school personnel to understand that purchase orders must be completed at the time of ordering items and not after invoices are received for the items.

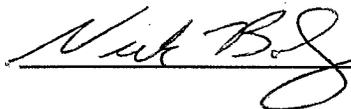
STATEMENT OF CERTIFICATION

State Committee for School District Audits
Frankfort, Kentucky

The Hancock County School District certifies that all audit adjustments have been entered into MUNIS. The Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, December 10, 2012


_____ Superintendent


_____ Finance Officer