

HANCOCK COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

with

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Hancock County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 4 through 11, and 40 through 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 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 basic financial statements.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky

November 13, 2013

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) Year ended June 30, 2013

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, 2013. 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, 2013 was \$3,315,006. Of this amount, \$1,249,750 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$2,065,256.
- Property tax rates stayed the same at 57.6 cents as well as the motor vehicle tax rates at 40.0 cents for the 2012-13 school year.
- The General Fund had \$11.4 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 \$11.1 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 \$83,454 was paid in earned sick leave to those who retired during or at the end of the 2012-13 school year by the General Fund. A total of \$0 was paid in earned sick leave to those who retired during or at the end of the 2012-2013 school year by Food Service.
- The guaranteed SEEK base was decreased by \$70.00 per student over FY '12 which makes the per pupil funding \$3,833 per pupil. The assessment amount for our county decreased by approximately \$15 million and our prior year end of year AADA decreased by 17.64 students. But the District saw a growth in our home and hospital count, exceptional child count, and transportation count. Overall the District had an increase in SEEK revenue of \$56,352 during the FY '13 school year. 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 2012-2013 school year. The grants that were subjected to cuts were Family Resource Youth Service Center, Title I, Professional Development, and Title II Teacher Quality.

- Lewisport Shopping Center was purchased last year and served as our vocational center for Hancock County High School. We received revenue in the amount of \$61,118 in rental income from the shopping center tenants.
- The Board approved to supply all students at Hancock County High School with iPads beginning with the 2011-12 school year. The Board entered into a 3-year lease with Apple Computer at the yearly cost of \$90,471 with a final cost of \$1.00 per iPad to purchase them at the end of the lease. Five hundred student iPads were leased through this agreement.
- The Board continued their participation in the Advanced Kentucky AP Program at Hancock County High School for the 2012-13 school year.
- The District continues to provide additional services to our students by securing grants each year. These grants provide additional funds for staffing and programs that would not be available to students if the District did not secure these available monies. The District strives to secure all resources that are available to provide resources to promote success in our students and to skill enhancements to our staff.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$8.9 million as of June 30, 2013.

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, 2013

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

	Governmental		Business-Type		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current Assets	3,797,224	3,602,804	416,555	416,769	4,213,779	4,019,573
Noncurrent Assets	19,718,650	21,474,459	319,823	369,759	20,038,473	21,844,218
TOTAL ASSETS	23,515,874	25,077,263	736,378	786,528	24,252,252	25,863,791
DEFERRED OUTFLOWS OF RESOURCES	861,864	-	-	-	861,864	-
Current Liabilities	1,459,514	1,399,264	-	-	1,459,514	1,399,264
Noncurrent Liabilities	14,698,936	15,477,748	-	-	14,698,936	15,477,748
TOTAL LIABILITIES	16,158,450	16,877,012	-	-	16,158,450	16,877,012
Net Position:						
Investment in capital assets (net of debt)	4,643,766	4,507,478	319,823	369,759	4,963,589	4,877,237
Restricted for:						
Capital Projects	152,547	215,063	-	-	152,547	215,063
Other Purposes	-	-	-	-	-	-
Unrestricted	3,422,975	3,477,710	416,555	416,769	3,839,530	3,894,479
TOTAL NET POSITION	8,219,288	8,200,251	736,378	786,528	8,955,666	8,986,779

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 2012-13 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, 2013.

	Governmental		Business-Type		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenues:						
From general sources:						
Property Tax	3,144,087	2,772,589	-	-	3,144,087	2,772,589
Motor Vehicle Tax	212,068	200,206	-	-	212,068	200,206
Utility Tax	1,162,980	1,171,329	-	-	1,162,980	1,171,329
Other Tax	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Investments	24,870	119,957	2,130	10,325	27,000	130,282
Other Sources	297,409	318,676	375	946	297,784	319,622
Gain (Loss) Fixed Assets	-	-	-	-	-	-
State & Federal Grants	7,411,028	7,345,976	-	-	7,411,028	7,345,976
Program:						
Operating Grants	4,055,666	4,318,907	659,765	679,699	4,715,431	4,998,606
Capital Grants	493,876	699,759	-	-	493,876	699,759
Charges for Services	-	-	367,784	441,923	367,784	441,923
TOTAL REVENUES	16,801,984	16,947,399	1,030,054	1,132,893	17,832,038	18,080,292
Expenses:						
Instruction	9,664,870	9,809,601	-	-	9,664,870	9,809,601
Student Support	607,746	657,962	-	-	607,746	657,962
Instructional Support	899,896	964,657	-	-	899,896	964,657
District Administration	524,156	444,316	-	-	524,156	444,316
School Administration	1,096,113	1,052,968	-	-	1,096,113	1,052,968
Business Support	489,995	569,966	-	-	489,995	569,966
Plant Operations	1,301,441	1,350,771	-	-	1,301,441	1,350,771
Student Transportation	1,338,519	1,340,144	-	-	1,338,519	1,340,144
Facilities Acquisition	102,826	-	-	-	102,826	-
Other	175,106	177,547	-	-	175,106	177,547
Community Support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Debt Interest and Amortization	493,876	699,759	-	-	493,876	699,759
Food Service	-	-	1,067,355	1,123,562	1,067,355	1,123,562
Community Education/Child Care	-	-	12,849	39,348	12,849	39,348
TOTAL EXPENDITURES	16,694,544	17,067,691	1,080,204	1,162,910	17,774,748	18,230,601
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Change In Net Position	107,440	(120,292)	(50,150)	(30,017)	57,290	(150,309)
Net Position Beginning	8,111,848	8,320,543	786,528	816,545	8,898,376	9,137,058
Net Position Ending	8,219,288	8,200,251	736,378	786,528	8,955,666	8,986,779

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *67% with approximately **33% coming from local sources.

*State Revenue \$9,168,546 divided by Total Revenue \$13,763,969 is equal to 67%

**Total Local \$4,595,423 divided by Total Revenue \$13,763,969 is equal to 33%

BUDGET ALLOCATION

Approximately 73% 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 9% or \$1,058,820 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 62% 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 \$7,864,869 regular instruction and \$566,619 instructional support staff or \$8,431,488. Total instruction divided by total expenses equals 62%.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,141,204, maintenance & operations \$1,268,391, business support \$473,430 and district administration of \$496,230 for a total central office support expense of \$3,379,255 or 25%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants remained decreased by approximately \$401,215 from prior year 2011-12.

Food Service Fund is categorized as a major fund. Food service is a business-type activity. This program had revenues of \$966,454 for fiscal year 2013. Net position decreased \$100,901. 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 2012-13 fiscal year showed a decrease in EOY AADA of 13.21 students compared to the FY12 school year. However, end of the second month figures is showing an increase in enrollment so we know that our SEEK will be adjusted due to this growth.

Property assessment for the 2012-13 fiscal year had a decrease of \$15 million compared to FY12. The Board approved the compensating rate with an additional .2 cents for exonerations which left the tax rates at the same level as 11-12. The Board approved a motor vehicle tax rate of 40 cents per \$100 of assessed value upon all motor vehicles and watercraft. For fiscal year 2012-2013 there was an increase in property tax revenue of \$371,498 and an increase in motor vehicle tax revenue of \$11,860.

Hancock County Schools is ranked in the 84% percentile of school districts in the State of Kentucky in the state assessment criteria and the District is classified as a distinguished school. Hancock County High School leads the District and is classified as a distinguished school. Hancock County Middle School is classified as a proficient school for the District. South Hancock Elementary School and North Hancock Elementary School are the District's "Needs Improvement" schools and these schools will continue to work toward the goal of proficiency. Hancock County High School is ranked in the top ten 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 \$2,325,447 in contingency. This contingency is due largely in part to the Commonwealth Aluminum settlement. As of July 1, 2012 the balance in this account was \$1,244,080, 9% of the General Fund budget. The beginning fund balance for the fiscal year 2013 was \$3,070,071. Significant action by the state that impacts the finances of the District was the reduction in Special Revenue grants whereby the District has to supplement these areas to continue needed services.

The District currently participates in thirty federal and state grants. The total budget for these grants is \$1,681,238. 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 \$278,425 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 POSITION

June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,399,119	\$ 322,044	\$ 3,721,163
Receivables:			
Taxes	119,680	-	119,680
Intergovernmental – State	23,930	-	23,930
Intergovernmental – Federal	254,495	43,477	297,972
Inventory	-	51,034	51,034
Net capital assets	<u>19,718,650</u>	<u>319,823</u>	<u>20,038,473</u>
Total assets	23,515,874	736,378	24,252,252
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	861,864	-	861,864
LIABILITIES			
Accrued liabilities	110,831	-	110,831
Unearned revenue	106,778	-	106,778
Current maturities of bond obligations	987,074	-	987,074
Current maturities of capital lease obligation	89,664	-	89,664
Current portion of accumulated sick leave	112,062	-	112,062
Interest payable	53,105	-	53,105
Noncurrent maturities of bond obligations	13,945,041	-	13,945,041
Noncurrent portion of accumulated sick leave	517,732	-	517,732
Accrued insurance claims liability	<u>236,163</u>	<u>-</u>	<u>236,163</u>
Total liabilities	<u>16,158,450</u>	<u>-</u>	<u>16,158,450</u>
NET POSITION			
Invested in capital assets, net of related debt	4,643,766	319,823	4,963,589
Restricted for:			
Capital expenditures/debt service	152,547	-	152,547
Unrestricted	<u>3,422,975</u>	<u>416,555</u>	<u>3,839,530</u>
Total net position	<u>\$ 8,219,288</u>	<u>\$ 736,378</u>	<u>\$ 8,955,666</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

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	\$ 9,664,870	\$ -	\$ 2,640,753	\$ -	\$ (7,024,117)	\$ -	\$ (7,024,117)
Student support services	607,746	-	179,758	-	(427,988)	-	(427,988)
Instructional staff support services	899,896	-	425,097	-	(474,799)	-	(474,799)
District administration	524,156	-	43,232	-	(480,924)	-	(480,924)
School administration	1,096,113	-	215,919	-	(880,194)	-	(880,194)
Business support services	489,995	-	73,061	-	(416,934)	-	(416,934)
Plant operations and maintenance	1,301,441	-	111,934	-	(1,189,507)	-	(1,189,507)
Student transportation	1,338,519	-	213,333	-	(1,125,186)	-	(1,125,186)
Community services	170,206	-	-	-	(170,206)	-	(170,206)
Land improvements	4,900	-	-	-	(4,900)	-	(4,900)
Facilities acquisition and construction	102,826	-	152,579	-	49,753	-	49,753
Interest	493,876	-	-	493,876	-	-	-
Total governmental activities	16,694,544	-	4,055,666	493,876	(12,145,002)	-	(12,145,002)
Business-type activities							
Food service	1,067,355	305,478	659,765	-	-	(102,112)	(102,112)
Other business-type activities	12,849	62,306	-	-	-	49,457	49,457
Total business-type activities	1,080,204	367,784	659,765	-	-	(52,655)	(52,655)
Total primary government	\$ 17,774,748	\$ 367,784	\$ 4,715,431	\$ 493,876	(12,145,002)	(52,655)	(12,197,657)
General revenues							
Taxes:							
					3,144,087	-	3,144,087
					212,068	-	212,068
					1,162,980	-	1,162,980
					24,870	2,130	27,000
					7,392,578	-	7,392,578
					18,450	-	18,450
					297,409	375	297,784
					<u>12,252,442</u>	<u>2,505</u>	<u>12,254,947</u>
					107,440	(50,150)	57,290
					8,200,251	786,528	8,986,779
					(88,403)	-	(88,403)
					8,111,848	786,528	8,898,376
					<u>\$ 8,219,288</u>	<u>\$ 736,378</u>	<u>\$ 8,955,666</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2013

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 3,246,572	\$ -	\$ 87,984	\$ -	\$ 64,563	\$ -	\$ 3,399,119
Receivables:							
Taxes	119,680	-	-	-	-	-	119,680
Intergovernmental – State	-	23,930	-	-	-	-	23,930
Intergovernmental – Federal	-	254,495	-	-	-	-	254,495
Due from Special Revenue Funds	<u>171,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,647</u>
Total assets	<u>\$ 3,537,899</u>	<u>\$ 278,425</u>	<u>\$ 87,984</u>	<u>\$ -</u>	<u>\$ 64,563</u>	<u>\$ -</u>	<u>\$ 3,968,871</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accrued liabilities	\$ 110,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,831
Due to General Fund	-	171,647	-	-	-	-	171,647
Unearned revenue	-	106,778	-	-	-	-	106,778
Current portion of accumulated sick leave	<u>112,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,062</u>
Total liabilities	222,893	278,425	-	-	-	-	501,318
Fund balances							
Restricted for:							
Capital expenditures/ debt service	-	-	87,984	-	-	-	87,984
Capital expenditures	-	-	-	-	64,563	-	64,563
Committed to future sick leave	532,336	-	-	-	-	-	532,336
Assigned to purchase obligations	17,711	-	-	-	-	-	17,711
Unassigned	<u>2,764,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,764,959</u>
Total fund balances	<u>3,315,006</u>	<u>-</u>	<u>87,984</u>	<u>-</u>	<u>64,563</u>	<u>-</u>	<u>3,467,553</u>
Total liabilities and fund balances	<u>\$ 3,537,899</u>	<u>\$ 278,425</u>	<u>\$ 87,984</u>	<u>\$ -</u>	<u>\$ 64,563</u>	<u>\$ -</u>	<u>\$ 3,968,871</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

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

June 30, 2013

Total fund balances – governmental funds	\$ 3,467,553
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$30,739,403, and the accumulated depreciation is \$11,020,753.	19,718,650
Deferred loss on bond refundings are not current financial resources and therefore are reported as outflows or resources in governmental funds.	861,864
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(14,932,115)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(89,664)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(517,732)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(53,105)
Accrued insurance claims liability is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(236,163)</u>
Total net position – governmental activities	<u>\$ 8,219,288</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2013

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,868,649	\$ -	\$ -	\$ 275,438	\$ -	\$ -	\$ 3,144,087
Motor vehicle	212,068	-	-	-	-	-	212,068
Utilities	1,162,980	-	-	-	-	-	1,162,980
Earnings on investments	24,557	16	-	-	297	-	24,870
Other local	308,719	23,967	-	-	-	-	332,686
Intergovernmental – State	9,168,546	676,975	149,957	268,155	-	698,235	10,961,868
Intergovernmental – Federal	18,450	956,285	-	-	-	-	974,735
Total revenues	13,763,969	1,657,243	149,957	543,593	297	698,235	16,813,294
Expenditures							
Current:							
Instruction	7,864,868	1,067,686	-	-	-	-	8,932,554
Student support services	533,927	73,819	-	-	-	-	607,746
Instructional staff support services	566,619	313,613	-	-	-	-	880,232
District administration	496,230	-	-	-	-	-	496,230
School administration	1,086,626	3,399	-	-	-	-	1,090,025
Business support services	473,430	11,714	-	-	-	-	485,144
Plant operations and maintenance	1,268,389	-	-	-	-	-	1,268,389
Student transportation	1,141,204	62,515	-	-	-	-	1,203,719
Community services	20,459	148,491	-	-	-	-	168,950
Land improvement	4,900	-	-	-	-	-	4,900
Facilities acquisition and construction	-	-	-	-	102,826	-	102,826
Debt service	-	-	-	-	-	1,390,160	1,390,160
Total expenditures	13,456,652	1,681,237	-	-	102,826	1,390,160	16,630,875
Excess (deficit) of revenues over (under) expenditures	307,317	(23,994)	149,957	543,593	(102,529)	(691,925)	182,419
Other financing sources (uses)							
Proceeds of refunding bonds	-	-	-	-	-	975,000	975,000
Payment to refund bond escrow agent	-	-	-	-	-	(975,000)	(975,000)
Operating transfers in	71,002	23,994	-	-	-	691,925	786,921
Operating transfers out	(133,384)	-	(109,944)	(543,593)	-	-	(786,921)
Total other financing sources (uses)	(62,382)	23,994	(109,944)	(543,593)	-	691,925	-
Net change in fund balance	244,935	-	40,013	-	(102,529)	-	182,419
Fund balance as of July 1, 2012	3,070,071	-	47,971	-	167,092	-	3,285,134
Fund balance as of June 30, 2013	\$ 3,315,006	\$ -	\$ 87,984	\$ -	\$ 64,563	\$ -	\$ 3,467,553

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, 2013

Net change in total fund balances – governmental funds	\$ 182,419
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which depreciation expense (\$1,028,698) and loss on asset disposals (\$11,310) exceeds capital outlays (\$212,807) for the year.	(827,201)
Deferred loss on bond refundings are not reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds on the statement of activities.	21,659
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	874,625
Capital lease payments are expenditures in the governmental fund financial statements, but are reductions of principal and interest expense in the statement of activities.	88,864
Insurance claims expense related to accrued insurance claim liability is recognized in the statement of activities but not in the governmental fund financial statement because it will not be paid with existing financial resources.	(236,163)
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>3,237</u>
Change in net position – governmental activities	<u>\$ 107,440</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2013

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	\$ 115,235	\$ 205,886	\$ 923	\$ 322,044
Intergovernmental Federal receivable	43,477	-	-	43,477
Inventory	<u>51,034</u>	<u>-</u>	<u>-</u>	<u>51,034</u>
Total current assets	209,746	205,886	923	416,555
Noncurrent assets				
Capital assets	657,980	-	-	657,980
Less accumulated depreciation	<u>338,157</u>	<u>-</u>	<u>-</u>	<u>338,157</u>
Total noncurrent assets	<u>319,823</u>	<u>-</u>	<u>-</u>	<u>319,823</u>
Total assets	529,569	205,886	923	736,378
NET POSITION				
Invested in capital assets	319,823	-	-	319,823
Unrestricted	<u>209,746</u>	<u>205,886</u>	<u>923</u>	<u>416,555</u>
Total net position	<u>\$ 529,569</u>	<u>\$ 205,886</u>	<u>\$ 923</u>	<u>\$ 736,378</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

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

Year ended June 30, 2013

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues				
Lunchroom sales	\$ 305,478	\$ -	\$ -	\$ 305,478
Tuition and fees	<u>-</u>	<u>60,257</u>	<u>2,049</u>	<u>62,306</u>
Total operating revenues	305,478	60,257	2,049	367,784
Operating expenses				
Salaries, wages, and benefits	622,195	4,029	204	626,428
Contract services	16,313	915	2,380	19,608
Materials and supplies	367,680	3,973	121	371,774
Depreciation	49,936	-	-	49,936
Other	<u>11,231</u>	<u>659</u>	<u>568</u>	<u>12,458</u>
Total operating expenses	<u>1,067,355</u>	<u>9,576</u>	<u>3,273</u>	<u>1,080,204</u>
Operating (loss) income	(761,877)	50,681	(1,224)	(712,420)
Nonoperating revenues				
Federal grants	552,844	-	-	552,844
State grants	106,921	-	-	106,921
Interest income	1,211	919	-	2,130
Other	<u>-</u>	<u>-</u>	<u>375</u>	<u>375</u>
Total nonoperating revenues	660,976	919	375	662,270
Change in net position	(100,901)	51,600	(849)	(50,150)
Net position as of July 1, 2012	<u>630,470</u>	<u>154,286</u>	<u>1,772</u>	<u>786,528</u>
Net position as of June 30, 2013	<u>\$ 529,569</u>	<u>\$ 205,886</u>	<u>\$ 923</u>	<u>\$ 736,378</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS Year ended June 30, 2013

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities				
Cash received from:				
Lunchroom sales	\$ 305,478	\$ -	\$ -	\$ 305,478
Tuition and fees	-	60,257	2,049	62,306
Cash paid to/for:				
Employees	(525,049)	(4,029)	(204)	(529,282)
Contract services	(16,313)	(915)	(2,380)	(19,608)
Materials and supplies	(310,040)	(3,973)	(121)	(314,134)
Other	(11,231)	(659)	(568)	(12,458)
Net cash (used in) provided by operating activities	(557,155)	50,681	(1,224)	(507,698)
Cash flows from noncapital financing activities				
Government grants	462,558	-	-	462,558
Other	-	-	375	375
Net cash provided by noncapital financing activities	462,558	-	375	462,933
Cash flows from investing activities				
Receipt of interest income	1,211	919	-	2,130
Net cash provided by investing activities	1,211	919	-	2,130
Net (decrease) increase in cash	(93,386)	51,600	(849)	(42,635)
Cash as of July 1, 2012	208,621	154,286	1,772	364,679
Cash as of June 30, 2013	<u>\$ 115,235</u>	<u>\$ 205,886</u>	<u>\$ 923</u>	<u>\$ 322,044</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities				
Operating (loss) income	\$ (761,877)	\$ 50,681	\$ (1,224)	\$ (712,420)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation	49,936	-	-	49,936
Donated commodities	56,584	-	-	56,584
State on-behalf payments	97,146	-	-	97,146
Decrease in inventory	1,056	-	-	1,056
Net cash (used in) provided by operating activities	<u>\$ (557,155)</u>	<u>\$ 50,681</u>	<u>\$ (1,224)</u>	<u>\$ (507,698)</u>
Schedule of noncash transactions				
Donated commodities received from:				
Federal government	\$ 56,584	\$ -	\$ -	\$ 56,584
State on-behalf payments	97,146	-	-	97,146

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUNDS

June 30, 2013

Student
Activity
Funds

ASSETS

Cash \$ 222,517
Accounts receivable 2,171

Total assets 224,688

LIABILITIES

Accounts payable 2,589
Due to student groups/employees 222,099

Total liabilities 224,688

NET POSITION \$ -

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2013

1. Basis of presentation and summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The funds' principal operating revenues are food service charges and tuition and fees. Operating expenses include 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 Debt Service Fund accounts for and reports expenditures for debt service. This is a major fund of the District.

b. Proprietary fund types

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

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

c. Fiduciary fund type

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

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

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

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

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

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

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

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

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

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

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

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2013.

Bond issue costs – Prior to July 1, 2012, costs associated with the issuance of bond obligations were capitalized and amortized over the related bond term on the statements of net position and activities. Effective July 1, 2012 the District adopted the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Accordingly, the District expenses bond issue costs as incurred.

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

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, 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. Those assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains 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.

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

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

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, 2013.

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

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

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

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

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

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

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

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds. 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 November 13, 2013, 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 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*. GASB 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. GASB 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. Effective July 1, 2012, the District adopted GASB Statements No. 63 and 65. The adoption of GASB Statement 65 resulted in a \$88,403 reduction of the District's net position as of July 1, 2012 and is presented as a change in accounting principal on the accompanying statement of activities.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB 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 GASB 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 discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. GASB Statement No. 68 also provides related note disclosure and supplementary information requirements. GASB 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, 2013, the carrying amount of the District's deposits with financial institutions was \$3,943,680, and its bank balance totaled \$5,709,603. 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, 2013 were \$.576 per \$100 valuation for real property, \$.576 per \$100 valuation for business personal property, and \$.40 per \$100 valuation for motor vehicles.

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

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2013 is as follows:

<u>Governmental Activities</u>	Balance July 1, 2012	Additions	Dispositions	Balance June 30, 2013
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,027,170	-	-	1,027,170
Buildings and improvements	24,297,106	-	-	24,297,106
Technology equipment	2,089,497	212,807	117,738	2,184,566
Vehicles	2,196,027	-	130,037	2,065,990
General equipment	880,127	-	2,567	877,560
Other	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
Total cost	30,776,938	212,807	250,342	30,739,403
Less accumulated depreciation:				
Land improvements	592,162	34,005	-	626,167
Buildings and improvements	5,938,566	571,787	-	6,510,353
Technology equipment	1,481,523	230,395	105,910	1,606,008
Vehicles	1,571,865	135,555	130,038	1,577,382
General equipment	646,500	56,956	3,084	700,372
Other	<u>471</u>	<u>-</u>	<u>-</u>	<u>471</u>
Total accumulated depreciation	<u>10,231,087</u>	<u>1,028,698</u>	<u>239,032</u>	<u>11,020,753</u>
Governmental activities net capital assets	<u>\$ 20,545,851</u>	<u>\$ (815,891)</u>	<u>\$ 11,310</u>	<u>\$ 19,718,650</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 657,980	\$ -	\$ -	\$ 657,980
Less accumulated depreciation:				
Food service equipment	<u>288,221</u>	<u>49,936</u>	<u>-</u>	<u>338,157</u>
Business-type activities net capital assets	<u>\$ 369,759</u>	<u>\$ (49,936)</u>	<u>\$ -</u>	<u>\$ 319,823</u>

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

Instruction	\$ 801,061
Instructional staff support services	19,664
District administration	27,926
School administration	6,088
Business support services	4,851
Plant operations and maintenance	33,052
Student transportation	134,800
Community services	<u>1,256</u>
 Total depreciation expense	 <u>\$ 1,028,698</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	675,000	3.75%
2012	8,010,000	2.00 – 2.375%
2013	975,000	0.70 – 1.100%

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 May 2013, the District issued revenue refunding bonds totaling \$975,000 bearing interest ranging from 0.70% to 1.100% to defease a portion of the 2004 Energy issue totaling \$909,111. This transaction will result in future cash flow savings of approximately \$65,000 and an approximate economic gain (difference between the present value of the new debt service payments and the old debt service payments) of \$64,000. As of June 30, 2013, \$909,111 of defeased 2004 Energy 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.

Additionally, \$7,190,000 remains outstanding from a 2004 bond issue that was defeased in 2012. These bonds will be retired in 2014.

In 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 \$348,414 through 2030) scheduled for the 2011 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, 2013 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Hancock County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 474,197	\$ 180,187	\$ 512,877	\$ 213,068	\$ 1,380,329
2015	480,677	171,598	523,783	295,869	1,471,927
2016	495,209	164,099	540,155	188,903	1,388,366
2017	507,938	156,170	551,950	175,961	1,392,019
2018	508,008	147,768	550,805	162,607	1,369,188
2019	518,314	139,514	563,202	149,146	1,370,176
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

Fiscal Year Ending	Hancock County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
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>\$ 7,946,803</u>	<u>\$ 1,701,485</u>	<u>\$ 6,985,312</u>	<u>\$ 1,931,638</u>	<u>\$ 18,565,238</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2013 is as follows:

Issue	Balance July 1, 2012	Additions	Payments	Balance June 30, 2013
2004 Energy	\$ 1,225,000	\$ -	\$ 1,065,000	\$ 160,000
2004	435,000	-	435,000	-
2007	3,300,000	-	75,000	3,225,000
2009	512,930	-	70,815	442,115
2010	1,735,000	-	55,000	1,680,000
2012	650,000	-	25,000	625,000
2012	7,945,000	-	120,000	7,825,000
2013	-	975,000	-	975,000
Totals	<u>\$ 15,802,930</u>	<u>\$ 975,000</u>	<u>\$ 1,845,815</u>	<u>\$ 14,932,115</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, 2013 is as follows:

Balance as of July 1, 2012	\$ 650,787
Additions	62,461
Less payments	<u>83,454</u>
Balance as of June 30, 2013	629,794
Less current portion	<u>112,062</u>
Noncurrent portion	<u>\$ 517,732</u>

7. Accrued insurance claims liability

The District has previously purchased workers compensation and general liability insurance through the Kentucky School Boards Insurance Trust (KSBIT). KSBIT filed for bankruptcy. Accordingly, the participant districts are subject to KSBIT's unpaid outstanding claims. The KSBIT Board provided the District with an estimate of the District's potential share of the loss (approximately \$268,000 highest estimate), and an estimate of the District's most likely loss (\$236,163). The District has accrued the most likely loss on the accompanying statement of net position but could be exposed to additional liability if the KSBIT Board estimate is understated.

8. 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, 2013 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.

9. Retirement plans

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

employees of the public school systems and other public educational agencies in Kentucky. KTRS require that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members who participated in a state retirement system before July 1, 2008, and 14.105% of salaries for members who started their account 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 access to post-employment 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.

In order to fund the post-employment healthcare benefit, active member contributions are matched by the State at 0.75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees, as described in the plan description, and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1% of members' salaries for the 2012-2013 fiscal year.

The District's total payroll was \$9,969,567, \$10,184,256, and \$9,894,518 for the years ended June 30, 2013, 2012, and 2011, respectively. The payroll for employees covered under KTRS was \$7,258,358, \$7,377,576, and \$7,206,938 for the years ended June 30, 2013, 2012, and 2011, respectively. The Commonwealth contributed \$983,734, \$926,760, and \$904,303 to KTRS for the years ended June 30, 2013, 2012, and 2011, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$40,058, \$44,264, and \$44,003 for the years ended June 30, 2013, 2012, and 2011, 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% of their annual covered compensation if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 19.55% 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, 2013, 2012, and 2011 were \$478,759, \$489,540, and \$425,735, 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 \$75,000 during the year ended June 30, 2013. The District does not contribute to these plans.

10. 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 position:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 983,734
Health and life insurance	<u>1,458,598</u>
Total	<u>\$ 2,442,332</u>

11. Insurance, risk management, and related activities

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

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. However, the District has potential exposure for claims in excess of commercial insurance coverage as explained in Note 7.

12. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the School Construction Fund, School 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.

13. 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.

14. Transfer of funds

The following transfers were made during the year ended June 30, 2013:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching Funds	\$ 23,994
Debt Service	General	Debt Service Fund	Debt Service	109,390

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	FSPK	Debt Service Fund	Debt Service	\$ 543,593
Debt Service	SEEK Capital Outlay	Debt Service Fund	Debt Service	38,942
Operating	SEEK Capital Outlay	General	Administrative	71,002

15. Interfund receivables and payables

Interfund balances as of June 30, 2013 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	\$ 171,647

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,495,000	\$ 2,495,000	\$ 2,868,649	\$ 373,649
Motor vehicle	180,000	202,000	212,068	10,068
Utilities	1,033,225	1,033,225	1,162,980	129,755
Earnings on investments	106,000	23,000	24,557	1,557
Other local	264,629	285,429	308,719	23,290
Intergovernmental – State	5,585,372	6,789,352	9,168,546	2,379,194
Intergovernmental – Federal	25,000	25,000	18,450	(6,550)
Total revenues	9,689,226	10,853,006	13,763,969	2,910,963
Expenditures				
Current:				
Instruction	6,697,913	6,559,594	7,864,868	(1,305,274)
Student support services	471,822	493,054	533,927	(40,873)
Instructional staff support services	492,852	488,927	566,619	(77,692)
District administration	530,943	507,466	496,230	11,236
School administration	893,786	846,715	1,086,626	(239,911)
Business support services	429,607	383,441	473,430	(89,989)
Plant operations and maintenance	1,162,056	1,192,670	1,268,389	(75,719)
Student transportation	974,695	965,732	1,141,204	(175,472)
Community services	20,865	20,490	20,459	31
Land improvements	-	-	4,900	(4,900)
Contingency	807,528	2,325,447	-	2,325,447
Debt service	109,389	109,389	-	109,389
Total expenditures	12,591,456	13,892,925	13,456,652	436,273
(Deficit) excess of revenues (under) over expenditures	(2,902,230)	(3,039,919)	307,317	3,347,236
Other financing sources (uses)				
Operating transfers in	51,166	71,759	71,002	(757)
Operating transfers out	(38,000)	(38,000)	(133,384)	(95,384)
Total other financing sources (uses)	13,166	33,759	(62,382)	(96,141)
Net change in fund balance	(2,889,064)	(3,006,160)	244,935	3,251,095
Fund balance as of July 1, 2012	3,070,071	3,070,071	3,070,071	-
Fund balance as of June 30, 2013	\$ 181,007	\$ 63,911	\$ 3,315,006	\$ 3,251,095

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
Year ended June 30, 2013**

	<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	\$ -	\$ -	\$ 16	\$ 16
Other local	7,734	7,734	23,967	16,233
Intergovernmental – State	614,869	651,691	676,975	25,284
Intergovernmental – Federal	<u>661,752</u>	<u>965,263</u>	<u>956,285</u>	<u>(8,978)</u>
Total revenues	1,284,355	1,624,688	1,657,243	32,555
Expenditures				
Current:				
Instruction	745,039	1,050,832	1,067,686	(16,854)
Student support services	45,582	59,668	73,819	(14,151)
Instructional staff support services	267,220	295,674	313,613	(17,939)
School administration	780	-	3,399	(3,399)
Business support services	47,000	10,000	11,714	(1,714)
Student transportation	72,650	90,882	62,515	28,367
Community services	<u>144,084</u>	<u>141,626</u>	<u>148,491</u>	<u>(6,865)</u>
Total expenditures	<u>1,322,355</u>	<u>1,648,682</u>	<u>1,681,237</u>	<u>(32,555)</u>
Deficit of revenues under expenditures	(38,000)	(23,994)	(23,994)	-
Other financing sources				
Operating transfers in	<u>38,000</u>	<u>23,994</u>	<u>23,994</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2013	<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, 2013**

<u>School</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
North Hancock Elementary School	\$ 30,199	\$ 112,412	\$ 109,039	\$ 33,572	\$ -	\$ -	\$ 33,572
South Hancock Elementary School	36,151	28,048	25,384	38,815	-	-	38,815
Hancock County Middle School	<u>42,174</u>	<u>92,263</u>	<u>85,607</u>	<u>48,830</u>	<u>596</u>	<u>-</u>	<u>49,426</u>
Totals	<u>\$ 108,524</u>	<u>\$ 232,723</u>	<u>\$ 220,030</u>	<u>\$ 121,217</u>	<u>\$ 596</u>	<u>\$ -</u>	<u>\$ 121,813</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS
Year ended June 30, 2013**

<u>Activity Fund</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
General	\$ 14	\$ 32,668	\$ 30,797	\$ 87	\$ 1,972	\$ -	\$ 946	\$ 1,026
Teachers lounge	109	1,628	3,925	2,188	-	-	-	-
Vending	-	2,702	2,540	-	162	-	-	162
Gumball	2	-	-	-	2	-	-	2
Flower and gift fund	114	485	522	-	77	-	33	44
Gate receipts	12,846	66,579	11,981	(67,444)	-	-	-	-
Athletic Department	-	14,123	12,309	39,736	41,550	1,330	-	42,880
Athletic Director	-	700	2,097	1,397	-	-	-	-
Archery	-	150	-	(150)	-	-	-	-
Baseball	-	1,000	3,864	2,864	-	-	-	-
Boys basketball	-	1,615	6,314	4,699	-	-	-	-
Cross country	-	201	3,370	3,169	-	-	-	-
Football	-	4,896	17,980	13,084	-	-	-	-
Girls basketball	-	6,953	11,154	4,201	-	-	-	-
Golf	-	-	1,780	1,780	-	-	-	-
Softball	-	1,188	4,434	3,246	-	-	-	-
Tennis	-	1,340	1,411	71	-	-	-	-
Track	-	-	1,990	1,990	-	-	-	-

(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, 2013**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund</u> <u>Transfers</u>	<u>Cash</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2013</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2013</u>
Volleyball	\$ -	\$ -	\$ 4,162	\$ 4,162	\$ -	\$ -	\$ -	\$ -
PTO fundraiser	14	39,700	34,845	(721)	4,148	-	901	3,247
Golf tournament	675	5,425	4,585	-	1,515	-	-	1,515
District tournament	3,492	12,736	9,453	(6,775)	-	-	-	-
Christmas tournament	2,500	-	-	(2,500)	-	-	-	-
Athletic reserve account	5,700	-	-	(5,700)	-	-	-	-
Athletic long term	743	-	194	(549)	-	-	-	-
State tournament	-	1,510	3,020	1,510	-	-	-	-
Academic team	-	1,537	1,250	25	312	-	-	312
Arts and Humanities	282	110	30	-	362	-	-	362
Beta Club	735	1,164	902	-	997	-	-	997
Cheerleaders	5,172	13,730	18,551	1,893	2,244	-	206	2,038
Cheer individual	810	4,860	3,914	(1,756)	-	-	-	-
Dedicated Teens	19	-	-	-	19	-	-	19
FBLA	-	610	20	(171)	419	-	-	419
FCA	312	40	-	-	352	-	-	352
FEA	536	-	-	-	536	-	-	536
FFA	2,258	16,641	17,415	(50)	1,434	245	186	1,493

(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, 2013**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund</u> <u>Transfers</u>	<u>Cash</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2013</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2013</u>
FHA	\$ 546	\$ 6,809	\$ 5,449	\$ (50)	\$ 1,856	\$ -	\$ -	\$ 1,856
Art Club	112	730	837	-	5	-	-	5
Junior class	1,853	-	-	(1,853)	-	-	-	-
Pep Club	214	167	202	(50)	129	-	-	129
Reading Club	1,519	697	534	(50)	1,632	-	-	1,632
Sp Educ.Learn Ctr	812	751	604	(25)	934	-	-	934
Social Studies Club	466	-	116	-	350	-	-	350
Student Council	38	-	-	-	38	-	-	38
TSA	1,914	540	839	(85)	1,530	-	-	1,530
Skills USA	391	1,199	896	36	730	-	-	730
HOSA	75	1,306	1,174	(35)	172	-	-	172
Business	205	-	-	-	205	-	-	205
Chorus	5,947	8,727	8,734	-	5,940	-	25	5,915
Community Based								
Education	990	613	1,069	-	534	-	-	534
Health and PE	153	-	304	248	97	-	-	97
Home Economics	278	359	314	(35)	288	-	-	288
Theatre	4,488	6,504	5,245	(150)	5,597	-	-	5,597

(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, 2013**

<u>Activity Fund</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
Yearbook	\$ 4,355	\$ 5,665	\$ 8,102	\$ -	\$ 1,918	\$ -	\$ -	\$ 1,918
C D Mayfield Scholar	354	-	-	-	354	-	-	354
Scholarship	1,444	4,050	4,200	-	1,294	-	-	1,294
General equipment	3	-	-	-	3	-	-	3
In lieu of textbooks	211	-	-	-	211	-	-	211
Memorial Garden	85	110	69	-	126	-	-	126
Textbook rental	8,565	32,441	33,947	(20)	7,039	-	292	6,747
Field trips	709	359	1,020	-	48	-	-	48
Technology	354	2,057	983	(228)	1,200	-	-	1,200
Student/staff need	26	-	-	-	26	-	-	26
Sophomore class	342	-	-	(342)	-	-	-	-
Freshman class	198	-	-	(198)	-	-	-	-
Prom account	380	3,445	2,766	2,004	3,063	-	-	3,063
Relay for Life	-	1,628	1,628	-	-	-	-	-
100 Club	27	-	-	-	27	-	-	27
Summer school	850	1,100	492	(8)	1,450	-	-	1,450
KOSSA	14	-	139	140	15	-	-	15
After prom	385	1,146	1,108	-	423	-	-	423

(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, 2013**

<u>Activity Fund</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
Math department	\$ 9	\$ 2,500	\$ 2,500	\$ -	\$ 9	\$ -	\$ -	\$ 9
Fletcher Thrasher S	236	250	236	-	250	-	-	250
Challenge Day	375	1,125	-	(1,500)	-	-	-	-
IT scholarship	900	-	120	-	780	-	-	780
Youth Service Center	-	1,778	368	1,375	2,785	-	-	2,785
IPad repairs	-	1,499	1,499	-	-	-	-	-
Class of 2013	-	1,992	1,187	-	805	-	-	805
Class of 2014	-	3,647	1,672	342	2,317	-	-	2,317
Class of 2015	-	831	417	198	612	-	-	612
Class of 2016	-	908	501	-	407	-	-	407
Totals	<u>\$ 76,156</u>	<u>\$ 329,224</u>	<u>\$ 304,080</u>	<u>\$ -</u>	<u>\$ 101,300</u>	<u>\$ 1,575</u>	<u>\$ 2,589</u>	<u>\$ 100,286</u>

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100002-12 3100002-11	\$ 41,626 <u>228,110</u>
Subtotal			<u>269,736</u>
Special Education	84.027	3810002-12 3810002-11 3810002-10	302,256 6,590 <u>5,957</u>
Subtotal			<u>314,803</u>
Special Education Preschool	84.173	3800002-11	5,712
Vocational Education Basic	84.048	4621332-12 4621232-11	9,541 <u>2,779</u>
Subtotal			<u>12,320</u>
Improving Teacher Quality	84.367	3230002-12 3230002-11	57,915 <u>28,680</u>
Subtotal			<u>86,595</u>
Adult Education	84.002	3653 3733 3732S	1,909 25,209 <u>822</u>
Subtotal			<u>27,940</u>
21 st Century Community Learning Centers	84.287	3400002-11 3400002-10	198,904 <u>32,726</u>
Subtotal			<u>231,630</u>
Race to the Top	84.416	3960002-11	2,154

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Education Jobs Fund*	84.410	EJOB00	\$ 4,882
Special Education Preschool*	84.392	4800002-09	<u>512</u>
Total U.S. Department of Education			956,284
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-13 7750002-12	279,811 <u>72,970</u>
Subtotal			352,781
National School Breakfast Program	10.553	7760005-13 7760005-12	112,497 <u>30,982</u>
Subtotal			<u>143,479</u>
Total U.S. Department of Agriculture			<u>496,260</u>
Total cash expenditures			1,452,544
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555	Not Provided	<u>56,584</u>
Total federal expenditures			<u>\$ 1,509,128</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, 2013

1. Basis of presentation

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

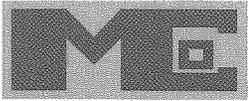
2. Food donation

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

3. Program clusters

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

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Child Nutrition	10.555/10.553	\$ 552,844
Special Education	84.027/84.173/84.392	321,027



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC

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Louisville, KY 40222

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *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*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 other matters that we reported to the District's management in a separate letter dated November 13, 2013.

Purpose of this Report

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2013



**MATHER
& COMPANY**

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Suite 200
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SOLUTION-DRIVEN CPAs and Business Advisors

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

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

Report on Compliance for Each Major Federal Program

We have audited the Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2013

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued		Unqualified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Noncompliance material to financial statement notes	_____	Yes	<u>✓</u> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Type of auditor’s 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	_____	Yes	<u>✓</u> No

Identification of major programs:

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

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, 2013

Section II – Financial Statement Findings

No matters to report.

Section III – Federal Award Findings

No matters to report.

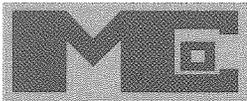
HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2013

Prior year audit finding: 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 prior 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 audited financial statements. This extended time exceeded the prescribed due date of November 15 mandated by the Kentucky Department of Education.

No instance noted in the current year.



**MATHER
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SOLUTION-DRIVEN CPAs and Business Advisors

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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 the Hancock County School District (District) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *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*, we considered the District's internal control over financial reporting and compliance as a basis for designing auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the District's internal control over reporting and compliance.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or a significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on 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 November 13, 2013 on the basic financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2013

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

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DISTRICT WIDE

Internal control

Follow-up on Prior Year Finding

Prior year finding: 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.

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

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

South Hancock Elementary School

Follow-up on Prior Year Findings

Prior year comment: The School did not follow Accounting Procedures for Kentucky School Activity Funds (Redbook) with regard to two purchase orders.

Current year follow-up: A similar instance was 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 one purchase order.

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

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

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

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

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at South Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed. The Superintendent and Accounting Manager will discuss the importance of following proper procedures for obtaining purchase orders before ordering supplies/materials and not after invoices are received for such items. The Superintendent and Accounting Manager will conduct and review an internal audit periodically during the upcoming school year to try to prevent this issue from recurring in the future.

Hancock County Middle School

Current Year Finding

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

Criteria for deficiency: The School did not match the approved purchase order with a vendor or Standard Invoice for one purchase prior to payment.

Cause of the deficiency: The payment was issued without a vendor or standard invoice.

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

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

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County Middle School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for payment of invoices. The Superintendent and Accounting Manager will review the proper procedures for obtaining purchase orders and that no payment can be processed until an invoice has been received from the vendor. The Superintendent and Accounting Manager will conduct and review an internal audit periodically during the upcoming school year to try to prevent this issue from recurring in the future.

STATEMENT OF CERTIFICATION

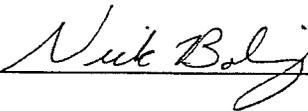
State Committee for School District Audits
Frankfort, Kentucky

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, November *13*, 2013



Superintendent



Finance Officer
