

HANCOCK COUNTY BOARD OF EDUCATION
SPARTA, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013
(Including Independent Auditor's Reports)

HANCOCK COUNTY BOARD OF EDUCATION

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FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

August 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Hancock County Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the Hancock County Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County Board of Education, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2013, the Hancock County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, in 2013, the Hancock County Board of Education restated the prior period financial statements to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 25, 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 regarding 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 Hancock County Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules 2 through 5, is presented for the

purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2014, on our consideration of the Hancock County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock County Board of Education's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013ARL-11

HANCOCK COUNTY BOARD OF EDUCATION

HANCOCK COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Investments	$ 311,599
Receivables	
Taxes	2,173,639
Intergovernmental:	
State	640,465
Federal	733,037
Other	39,116
Inventories	10,908
Prepaid Items	197,961
Capital Assets, Non-Depreciable	162,777
Capital Assets, Depreciable (Net of Accumulated Depreciation)	9,051,821
Total Assets	$ 13,321,323
LIABILITIES	
Checks Issued in Excess of Bank Balance	$ 353,973
Accounts Payable	174,150
Salaries and Benefits Payable	1,253,991
Accrued Interest Payable	14,891
Unearned Revenue	358,325
Bonds Payable, Due Within One Year	210,000
Bonds Payable, Due in More Than One Year	435,000
Capital Leases, Due Within One Year	119,376
Capital Leases, Due in More Than One Year	253,758
Total Liabilities	$ 3,173,464
NET POSITION	
Net Investment in Capital Assets	$ 8,196,464
Restricted for	
Continuation of Federal Programs	10,908
Debt Service	8,639
Capital Projects	417,520
Unrestricted	1,514,328
Total Net Position	$ 10,147,859

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

HANCOCK COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	EXPENSES	CHARGES FOR SERVICES
GOVERNMENTAL ACTIVITIES		
Instruction	$ 7,633,025	$ 162,555
Support Services		
Pupil Services	902,186	35,078
Improvement of Instructional Services	690,120	
Educational Media Services	232,201	
General Administration	470,030	
School Administration	841,697	
Business Administration	452,694	
Maintenance and Operation of Plant	1,495,272	
Student Transportation Services	1,301,159	
Central Support Services	504,005	
Other Support Services	202,833	
Operations of Non-Instructional Services		
Food Services	1,059,954	54,922
Interest on Short-Term and Long-Term Debt	48,667	
Total Governmental Activities	$ 15,833,843	$ 252,555
General Revenues		
Taxes		
Property Taxes		
Property Taxes, Levied for Maintenance and Operations		
Sales Taxes, for Capital Projects		
Intangible Taxes		
Transfer Taxes		
Railroad Equipment Tax		
Unrestricted Investment Earnings		
Miscellaneous		
Total General Revenues		
Change in Net Position		
Net Position - Beginning of Year, as Restated		
Net Position - End of Year		

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

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET POSITION
$ 4,182,232		$ -3,288,238
694,802		-172,306
445,623		-244,497
149,825		-82,376
563,479		93,449
713,223		-128,474
46,878		-405,816
501,099		-994,173
618,349	$ 76,220	-606,590
25,899	93,424	-384,682
134,547		-68,286
700,910		-304,122
		-48,667
$ 8,776,866	$ 169,644	$ -6,634,778
		$ 5,011,744
		466,823
		28,646
		12,217
		13,217
		1,933
		183,452
		$ 5,718,032
		$ -916,746
		11,064,605
		$ 10,147,859

HANCOCK COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

EXHIBIT "C"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Cash Equivalents		$ 341,218	$ 0	$ 341,218
Investments		311,599		311,599
Receivables:				
Taxes	$ 2,135,506	38,133		2,173,639
Intergovernmental:				
State	640,465			640,465
Federal	733,037			733,037
Other	39,116			39,116
Due From Other Funds	260,472			260,472
Prepaid Items	197,961			197,961
Inventories	10,908			10,908
Total Assets	$ 4,017,465	$ 690,950	$ 0	$ 4,708,415
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Checks Issued In Excess of Bank Balance	$ 695,191		$ 0	$ 695,191
Accounts Payable	174,150			174,150
Salaries and Benefits Payable	1,253,991			1,253,991
Due To Other Funds		$ 260,472		260,472
Unearned Revenue	358,325			358,325
Total Liabilities	$ 2,481,657	$ 260,472	$ 0	$ 2,742,129
DEFERRED INFLOWS				
Unavailable Revenue - Property Taxes	$ 1,975,295	$ 0	$ 0	$ 1,975,295
FUND BALANCES				
Nonspendable				
Inventories	$ 10,908		$ 0	$ 10,908
Prepaid Items	197,961			197,961
Restricted				
Capital Projects		$ 417,520		417,520
Debt Service		12,958		12,958
Unassigned (Deficit)	-648,356			-648,356
Total Fund Balances	$ -439,487	$ 430,478	$ 0	$ -9,009
Total Liabilities and Fund Balances	$ 4,017,465	$ 690,950	$ 0	$ 4,708,415

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

HANCOCK COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C")		$ -9,009
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds.		
Land	$ 162,777	
Land Improvements	308,896	
Buildings	15,331,483	
Equipment	3,401,998	
Accumulated Depreciation	-9,990,556	
Total Capital Assets		9,214,598
Other Long-Term Assets are not available to pay for current-period expenditures and are reported as Deferred Inflows in the funds.		
Property Taxes		1,975,295
Long-Term Liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds Payable	$ -645,000	
Accrued Interest Payable	-14,891	
Capital Leases Payable	-373,134	
Total Long-Term Liabilities		-1,033,025
Net Position of Governmental Activities (Exhibit "A")		$ 10,147,859

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

HANCOCK COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

EXHIBIT "E"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ 4,959,529		$ 0	$ 4,959,529
Sales Taxes	54,080	$ 466,823		520,903
State Funds	4,525,716			4,525,716
Federal Funds	4,420,794			4,420,794
Charges for Services	252,555			252,555
Investment Earnings	1,468	465		1,933
Miscellaneous	183,452			183,452
Total Revenues	$ 14,397,594	$ 467,288	$ 0	$ 14,864,882
EXPENDITURES				
Current				
Instruction	$ 7,320,770			$ 7,320,770
Support Services				
Pupil Services	897,508			897,508
Improvement of Instructional Services	690,120			690,120
Educational Media Services	232,201			232,201
General Administration	470,030			470,030
School Administration	841,697			841,697
Business Administration	450,506			450,506
Maintenance and Operation of Plant	1,459,210			1,459,210
Student Transportation Services	1,280,169			1,280,169
Central Support Services	488,761			488,761
Other Support Services	202,833			202,833
Food Services Operation	1,054,557			1,054,557
Debt Services				
Principal Retirement	4,394	$ 114,785	$ 200,000	319,179
Interest and Fees	71	19,517	33,615	53,203
Total Expenditures	$ 15,392,827	$ 134,302	$ 233,615	$ 15,760,744
Excess (Deficiency) of Revenues over (under) Expenditures	$ -995,233	$ 332,986	$ -233,615	$ -895,862
OTHER FINANCING SOURCES (USES)				
Transfers In	$ 0		$ 233,615	$ 233,615
Transfers Out		$ -233,615		-233,615
Total Other Financing Sources (Uses)	$ 0	$ -233,615	$ 233,615	$ 0
Net Change in Fund Balances	$ -995,233	$ 99,371	$ 0	$ -895,862
Fund Balances - Beginning	555,746	331,107	0	886,853
Fund Balances - Ending	$ -439,487	$ 430,478	$ 0	$ -9,009

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

HANCOCK COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ -895,862
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	$ 163,604	
Depreciation Expense	-538,332	
Excess of Capital Outlay over Depreciation Expense		-374,728
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net position.		-22,086
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		52,215
Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, these amounts consist of:		
Bond Principal Retirements	$ 200,000	
Capital Lease Payments	119,179	
Total Long-Term Debt Repayments		319,179
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. These activities consist of:		
Net Increase in Accrued Interest on Issuance of Bonds		4,536
Change in Net Position of Governmental Activities (Exhibit "B")		$ -916,746

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

HANCOCK COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

EXHIBIT "G"

	AGENCY FUNDS
ASSETS	
Cash and Cash Equivalents	$ 51,692
LIABILITIES	
Funds Held for Others	$ 51,692

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

NOTE 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Hancock County Board of Education (School District) was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The Board is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Hancock County Board of Education.

District-wide Statements:
The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:
The fund financial statements provide information about the School District's funds, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds each displayed in a separate column.

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.
- District-wide Capital Projects Fund accounts for and reports financial resources including Special Purpose Local Option Sales Tax (SPLOST) that are restricted, committed or assigned to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned including taxes (sales) legally restricted for the payment of general long-term principal and interest.

The School District reports the following fiduciary fund type:

Agency funds account for assets held by the School District as an agent for various funds, governments or individuals.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. 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 to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The School District funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, both restricted and unrestricted resources are available to finance the program. It is the School District's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The provisions of this Statement establish accounting and financial reporting standards for governments who enter into Service Concession Arrangements (SCA) with other governmental or nongovernmental entities. As of June 30, 2013, the School District has not entered into any arrangements that meet the qualifications to be reported as a SCA in accordance with this standard.

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement incorporate certain accounting and financial reporting guidance into authoritative GASB literature.

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of these Statements establish financial reporting standards for the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The School District changed its presentation of net assets to net position for fiscal year 2013.

CASH AND CASH EQUIVALENTS

Composition of Deposits
Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

INVESTMENTS

Composition of Investments
Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposit) and repurchase agreements are reported at cost. Participating interest-earning contracts and money market investments with a maturity at purchase of one year or less are reported at amortized cost. Both participating interest-earning contracts and money market investments with a maturity at purchase greater than one year and equity investments are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

1. Obligations issued by the State of Georgia or by other states,
2. Obligations issued by the United States government,
3. Obligations fully insured or guaranteed by the United States government or a United States government agency,
4. Obligations of any corporation of the United States government,
5. Prime banker's acceptances,
6. The Georgia Fund 1 administered by the State of Georgia, Office of the State Treasurer,
7. Repurchase agreements, and
8. Obligations of other political subdivisions of the State of Georgia.

The School District does not have a formal policy regarding investment policies that address credit risks, custodial credit risks, concentration of credit risks, interest rate risks or foreign currency risks.

RECEIVABLES

Receivables consist of amounts due from property and sales taxes, grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

PROPERTY TAXES

The Hancock County Board of Commissioners adopted the property tax levy for the 2012 tax digest year (calendar year) on October 19, 2012 (levy date) based on property values as of January 1, 2012. Taxes were due on December 20, 2012 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2012 tax digest are reported as revenue in the governmental funds for fiscal year 2013. The Hancock County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2013, for maintenance and operations amounted to $4,912,270.

The tax millage rate levied for the 2012 tax year (calendar year) for the Hancock County Board of Education was as follows (a mill equals $1 per thousand dollars of assessed value):

School Operations	13.927 mills

Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, amounted to $47,259 during fiscal year ended June 30, 2013.

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $466,823 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

Food Inventories

On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (first-in, first-out). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received, and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

PREPAID ITEMS

Payments made to vendors for services that will benefit periods subsequent to June 30, 2013, are recorded as prepaid items.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The School District does not capitalize book collections or works of art. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School District.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Policy	Estimated Useful Life
Land	All	N/A
Construction In Progress	$ 5,000	N/A
Land Improvements	$ 5,000	50 Years
Buildings and Improvements	$ 5,000	15 to 80 Years
Machinery and Equipment	$ 5,000	3 to 20 Years
Intangible Assets	$ 300,000	3 to 20 Years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets.

DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

The School District implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2012. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The School District did not have any items that qualified for reporting in this category for the year ended June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and grant and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, the School District recognizes bond premiums and discounts, as well as bond issuance costs during the fiscal year bonds are issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding amount of these bonds is recorded in the Statement of Net Position.

NET POSITION

The School District's net position in the District-wide Statements is classified as follows:

Net investment in capital assets - This represents the School District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - This represents resources for which the School District is legally or contractually obligated to spend resources for debt service, continuation of Federal programs and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net position - Unrestricted net position represents resources derived from property taxes, sales taxes, grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the School District, and may be used at the discretion of the Board to meet current expenses for those purposes.

FUND BALANCES

The School District's fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Constraints that are placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.

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

When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

DEFICIT FUND BALANCES

Funds reporting a deficit fund balance at June 30, 2013, are as follows:

Fund Type/Fund Name	Deficit Balance
Governmental Fund Type	
General Fund	$ 648,356

The School District plans to eradicate the deficit through a reduction in spending.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3: BUDGETARY DATA

The budget is a complete financial plan for the School District's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general, debt service, and capital projects funds. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except for various school activity (principal) accounts, is prepared and adopted by fund. The legal level of budgetary control was established by the Board at the aggregate fund level. The budget for the General Fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the School District's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board, such budget is advertised at least once in a newspaper of general circulation in the locality, as well as the School District's website. At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of Official Code of Georgia Annotated section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

If expenditure of funds in any fund is anticipated to be more than the budgeted amount, the Superintendent shall request Board approval for the budget amendment. Any position or expenditure not previously approved in the annual budget that exceeds $5,000 shall require Board approval unless the Superintendent deems the position or purchase an emergency. In such case, the expenditure shall be reported to the Board at its regularly scheduled meeting. Under no circumstance is the Superintendent or other staff person authorized to spend funds that exceed the total budget without approval by the Board.

See Schedule 1 – General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual for a detail of any over/under expenditures during the fiscal year under review.

NOTE 4: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

1. Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
2. Insurance on accounts provided by the Federal Deposit Insurance Corporation,
3. Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
4. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,

5. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
6. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
7. Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2013, the bank balances were $671,290. The bank balances were entirely covered by Federal depository insurance or collateralized with securities held by the pledging financial institution in the School District's name.

CATEGORIZATION OF INVESTMENTS

At June 30, 2013 the School District had the following investments:

Investment Type	Maturities	Rating*		Fair Value
Georgia Fund 1	43 Day Weighted Average	AAAm	$	276,907
Fidelity Institutional Treasury (Money Market Mutual Fund)	57 Day Weighted Average	AAAm		34,692
Total Investments			$	311,599

*Rating as per Standard and Poor's

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The School District does not have a formal policy for managing interest rate risk.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the School District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The School District does not have a formal policy for managing custodial credit risk.

At June 30, 2013, $34,692 of the School District's applicable investments were uninsured and are held by either the counterparty or the counterparty's trust department or agent in the School District's name.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District does not have a formal policy for managing credit quality risk.

NOTE 5: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. See Note 2 - Inventories

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

	Balances July 1, 2012	Increases	Decreases	Balances June 30, 2013
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 162,777	$ 0	$ 0	$ 162,777
Capital Assets, Being Depreciated:				
Buildings and Improvements	$ 15,322,337	$ 9,146		$ 15,331,483
Equipment	3,270,788	154,458	$ 23,248	3,401,998
Land Improvements	308,896			308,896
Less: Accumulated Depreciation:				
Buildings and Improvements	7,204,090	320,770		7,524,860
Equipment	2,176,532	196,969	1,162	2,372,339
Land Improvements	72,764	20,593		93,357
Total Capital Assets, Being Depreciated, Net	$ 9,448,635	$ -374,728	$ 22,086	$ 9,051,821
Governmental Activity Capital Assets - Net	$ 9,611,412	$ -374,728	$ 22,086	$ 9,214,598

Capital assets being acquired under capital leases as of June 30, 2013, are as follows:

	Governmental Activities
Equipment	$ 668,962
Less: Accumulated Depreciation	167,241
	$ 501,721

Current year depreciation expense by function is as follows:

Instruction		$ 312,905
Support Services		
Pupil Services	$ 4,678	
Business Administration	2,188	
Maintenance and Operation of Plant	52,248	
Student Transportation Services	145,672	
Central Support Services	15,244	220,030
Food Services		5,397
		$ 538,332

NOTE 7: INTERFUND ASSETS AND LIABILITIES

Due to and due from other funds are recorded for interfund receivables and payables which arise from interfund transactions. Interfund balances at June 30, 2013, consisted of the following:

Due To	Due From District-wide Capital Projects Fund
General Fund	$ 260,472

Interfund receivables and payables were incurred to repay the general fund for capital construction project expenditures with future SPLOST receipts.

NOTE 8: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer to	Transfers From District-wide Capital Projects
Debt Service Fund	$ 233,615

Transfer from the Capital Projects Fund was used to move SPLOST revenue to the Debt Service Fund for the payment of bonds.

NOTE 9: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God and unemployment compensation.

The School District has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, job related illness or injuries to employees, and acts of God. The School District has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years.

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the General Fund with expenses/expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

Changes in the unemployment compensation claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2012	$ 0	$ 16,479	$ 16,479	$ 0
2013	$ 0	$ 31,824	$ 31,824	$ 0

The School District has purchased surety bonds to provide additional insurance coverage as follows:

Position Covered	Amount
Superintendent	$ 100,000
Finance Director	$ 100,000

NOTE 10: SHORT-TERM DEBT

TAX ANTICIPATION NOTES

The School District issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its General Fund. This short-term debt is to provide cash to provide cash for operations until property tax collections were received by the School District.. Article IX, Section V, Paragraph V of the Constitution of the State of Georgia limits the aggregate amount of short-term debt to 75 percent of the total gross income from taxes collected in the preceding year and requires all short-term debt to be repaid no later than December 31 of the calendar year in which the debt was incurred.

Short-term debt activity for the fiscal year is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax Anticipation Notes	$ 0	$ 1,175,500	$ 1,175,500	$ 0

NOTE 11: LONG-TERM DEBT

CAPITAL LEASES

The Hancock County Board of Education entered into various lease agreements for lessee for buses and copiers. These lease agreements qualify as capital leases for accounting purposes, and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government - Series 2005	3.15% - 4.10%	$ 645,000

The changes in Long-Term Debt during the fiscal year ended June 30, 2013, were as follows:

	Governmental Activities				
	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
G. O. Bonds	$ 845,000	$ 0	$ 200,000	$ 645,000	$ 210,000
Capital Leases	492,313		119,179	373,134	119,376
	$ 1,337,313	$ 0	$ 319,179	$ 1,018,134	$ 329,376

At June 30, 2013, payments due by fiscal year which includes principal and interest for these items are as follows:

	Capital Leases	
	Principal	Interest
Fiscal Year Ended June 30:		
2014	$ 119,376	$ 14,925
2015	124,152	10,150
2016	129,606	5,197
Total Principal and Interest	$ 373,134	$ 30,272

	General Obligation Debt	
	Principal	Interest
Fiscal Year Ended June 30:		
2014	$ 210,000	$ 25,915
2015	215,000	17,620
2016	220,000	9,020
Total Principal and Interest	$ 645,000	$ 52,555

NOTE 12: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $852,663 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
Paid to the Georgia Department of Community Health
For Health Insurance of Certificated Personnel
In the amount of $817,248

Office of the State Treasurer
Paid to the Public School Employees' Retirement System
For Public School Employees' Retirement (PSERS) Employer's Cost
In the amount of $35,415

Funds paid to the Georgia Department of Community Health by the Georgia Department of Education on behalf of the School District are reported as part of the Quality Basic Education revenue allotments on Schedule 3 – Schedule of State Revenue.

NOTE 13: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

The School District is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine School District operations. The ultimate disposition of these proceedings is not presently determinable, but is not believed to be material to the basic financial statements.

NOTE 14: POST-EMPLOYMENT BENEFITS

GEORGIA SCHOOL PERSONNEL POST-EMPLOYMENT HEALTH BENEFIT FUND

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. For members with fewer than five years of service as of January 1, 2013, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2013, pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2013, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2013:

For certificated teachers, librarians and regional educational service agencies and certain other eligible participants:

July 2012 - February 2013	$912.34 per member per month
March 2013 - June 2013	$937.34 per member per month

For non-certificated school personnel:

July 2012 - June 2013	$446.20 per member per month

No additional contribution was required by the Board for fiscal year 2013 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School District's plan for other post-employment benefits and are subject to appropriation.

Currently, the state is requiring that local Boards of Education pay only on active employees. The School District's contribution to the health insurance plans for the fiscal years ended June 30, 2013, 2012 and 2011 was $1,340,967, $1,006,666 and $1,018,799 respectively, which equaled the required contribution. Currently, the State of Georgia has been making the remaining contributions to fund the pay as you go financing on behalf of all local Boards of Education (see Note 12 for discussion of on-behalf payments).

Fiscal Year	Percentage Contributed		Required Contribution
2013	100%	$	1,340,967
2012	100%	$	1,006,666
2011	100%	$	1,018,799

NOTE 15: RETIREMENT PLANS

TEACHERS' RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description. The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. The Teachers' Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers' Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2013, were 6.00% of annual salary. Employer contributions required for fiscal year 2013 were 11.41% of annual salary as required by the June 30, 2010, actuarial valuation. The employer contribution rate will increase to 12.28% effective July 1, 2013.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2013	100%	$ 826,253
2012	100%	$ 718,507
2011	100%	$ 731,361

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Bus drivers, lunchroom personnel, and maintenance and custodial personnel are members of the Public School Employees' Retirement System of Georgia (the "System"). The System is funded by contributions by the employees and by the State of Georgia. The School District makes no contribution to this plan. See Note 12: On-Behalf Payments for information on the contributions made by the State of Georgia on behalf of the School District's employees.

NOTE 16: SUBSEQUENT EVENT

TAX ANTICIPATION NOTE

On July 9, 2013 the Hancock County Board of Education issued a $1,175,500 temporary loan in advance of property tax collections. Proceeds from this short-term loan were used to provide cash for operations until property tax collections were received by the School District. The maturity date of the loan was December 31, 2013. Three draws totaling $1,175,500 were required to meet the cash flow needs of the School District. The note was repaid on December 10, 2013.

NOTE 17: PRIOR PERIOD ADJUSTMENT

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the School District is required to change its accounting treatment of debt issuance costs. The new standard required that debt issuance costs be recognized as an expense in the period incurred rather than capitalized and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

Therefore, in conjunction with the implementation of Statement No. 65, the following restatement was required to the beginning net position of Governmental Activities to properly recognize debt issuance costs as expenses in the period in which they were incurred.

Net Position, Governmental Activities, Previously Reported	$	11,089,845
Recognition of Issuance Costs Incurred in Prior Periods		-25,240
Net Position, Governmental Activities, as Restated	$	11,064,605

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HANCOCK COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL	VARIANCE
	ORIGINAL (1)	FINAL (1)	AMOUNTS	OVER/UNDER
REVENUES				
Property Taxes	$ 5,083,676	$ 5,083,676	$ 4,959,529	$ -124,147
Sales Taxes	13,280	13,280	54,080	40,800
State Funds	4,650,501	4,658,178	4,525,716	-132,462
Federal Funds	8,975,476	4,001,597	4,420,794	419,197
Charges for Services			252,555	252,555
Investment Earnings	2,000	2,035	1,468	-567
Miscellaneous	185,074	185,439	183,452	-1,987
Total Revenues	$ 18,910,007	$ 13,944,205	$ 14,397,594	$ 453,389
EXPENDITURES				
Current				
Instruction	$ 8,867,625	$ 7,610,903	$ 7,320,770	$ 290,133
Support Services				
Pupil Services	1,607,813	811,493	897,508	-86,015
Improvement of Instructional Services	820,522	719,953	690,120	29,833
Educational Media Services	193,584	201,400	232,201	-30,801
General Administration	827,765	649,165	470,030	179,135
School Administration	1,355,966	842,779	841,697	1,082
Business Administration	377,662	325,805	450,506	-124,701
Maintenance and Operation of Plant	1,403,611	1,025,665	1,459,210	-433,545
Student Transportation Services	1,703,950	1,203,487	1,280,169	-76,682
Central Support Services	284,902	284,902	488,761	-203,859
Other Support Services	402,100	222,880	202,833	20,047
Food Services Operation	1,006,770	833,285	1,054,557	-221,272
Capital Outlay	250,815			
Debt Service			4,465	-4,465
Total Expenditures	$ 19,103,085	$ 14,731,717	$ 15,392,827	$ -661,110
Excess of Revenues over (under) Expenditures	$ -193,078	$ -787,512	$ -995,233	$ -207,721
OTHER FINANCING SOURCES				
Other Sources	3,000	3,000		-3,000
Net Change in Fund Balances	$ -190,078	$ -784,512	$ -995,233	$ -210,721
Fund Balances - Beginning	555,746	555,746	555,746	0
Fund Balances - Ending	$ 365,668	$ -228,766	$ -439,487	$ -210,721

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

(1) Original and Final Budget amounts do not include the budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are $212,280 and $223,907, respectively.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

HANCOCK COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT		CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD	
Agriculture, U. S. Department of					
Child Nutrition Cluster					
Pass-Through From Georgia Department of Education					
Food Services					
School Breakfast Program	*	10.553	N/A	(2)	
National School Lunch Program	*	10.555	N/A	$ 926,824	(1)
Total U. S. Department of Agriculture				$ 926,824	
Education, U. S. Department of					
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
Grants to States		84.027	N/A	$ 317,959	
Preschool Grants		84.173	N/A	8,197	
Total Special Education Cluster				$ 326,156	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
Title I Grants to Local Educational Agencies	*	84.010	N/A	$ 762,268	
Other Programs					
Pass-Through From Georgia Department of Education					
Career and Technical Education - Basic Grants to States		84.048	N/A	$ 14,152	
Education Jobs Fund		84.410	N/A	467	
Improving Teacher Quality State Grants		84.367	N/A	139,212	
Rural Education		84.358	N/A	33	
Twenty-First Century Community Learning Centers	*	84.287	N/A	348,541	
Total Other Programs				$ 502,405	
Total U. S. Department of Education				$ 1,590,829	
Health and Human Services, U. S. Department of					
Direct					
Head Start	*	93.600		$ 2,119,436	
Defense, U. S. Department of					
Direct					
Department of the Air Force					
R.O.T.C. Program				$ 45,488	
Total Expenditures of Federal Awards				$ 4,682,577	

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

(1) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of $54,754.
(2) Expenditures for the funds earned on the School Breakfast Program ($164,881) were not maintained separately and are included in the 2013 National School Lunch Program.

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Hancock County Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 256,869
Education, Georgia Department of	
Quality Basic Education (1)	
Direct Instructional Cost	
Kindergarten Program	232,111
Kindergarten Program - Early Intervention Program	35,468
Primary Grades (1-3) Program	536,078
Primary Grades - Early Intervention (1-3) Program	150,787
Upper Elementary Grades (4-5) Program	251,705
Upper Elementary Grades - Early Intervention (4-5) Program	121,962
Middle School (6-8) Program	498,642
High School General Education (9-12) Program	602,174
Vocational Laboratory (9-12) Program	107,537
Students with Disabilities	899,187
Gifted Student - Category VI	45,920
Remedial Education Program	4,258
Alternative Education Program	48,282
Media Center Program	91,156
20 Days Additional Instruction	28,352
Staff and Professional Development	18,339
Indirect Cost	
Central Administration	276,274
School Administration	278,404
Facility Maintenance and Operations	217,364
Vocational Supervisors	7,031
Mid-term Adjustment Hold-Harmless	33,271
Amended Formula Adjustment	-1,596,430
Categorical Grants	
Pupil Transportation	
Regular	321,575
Nursing Services	45,000
Other State Programs	
Food Services	34,167
Health Insurance	817,248
Math and Science Supplements	15,091
Preschool Handicapped Program	25,432
Pupil Transportation - State Bonds	76,220
Vocational Education	10,827
Office of the State Treasurer	
Public School Employees' Retirement	35,415
	$ 4,525,716

(1) Payments to the Georgia Department of Community Health by the Georgia Department of Education on behalf of the School District are reported separately in the schedule above, however, the payments are part of the Quality Basic Education revenue allotments for the School District.

See notes to the basic financial statements.

HANCOCK COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2013

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3)	AMOUNT EXPENDED IN PRIOR YEARS (3)	TOTAL COMPLETION COST	EXCESS PROCEEDS NOT EXPENDED	ESTIMATED COMPLETION DATE
Acquiring, constructing and equipping new school buildings and other buildings and facilities useful or desirable in connection therewith, including a new auditorium/performing arts center, (ii) acquiring, constructing and equipping administrative offices, auxiliary education programs, and miscellaneous office space, (iii) acquiring communication equipment, technology, including computers, and other equipment, including buses and transportation equipment, (iv) adding to, renovating, repairing, improving and equipping existing school buildings and grounds, agricultural facilities and athletic facilities, and other buildings and facilities useful or desirable in connection therewith, including but not limited to M.E. Lewis Elementary School and Hancock Central Middle/High School, (v) acquiring land useful or desirable for the purpose of future expansion and associated costs, and (vi) completing any capital outlay projects authorized in connection with the sales and use tax currently in effect							
Project #1 M.E. Lewis Elementary School renovation/New Athletic facilities	$ 195,000	$ 253,818		$ 253,818	$ 0	$ 0	June 30, 2016
Project #2 Debt Service paid on prior Bonds	1,167,100	1,421,134	$ 233,615	1,187,619			June 30, 2016
Project #3 Purchase of school buses	800,000	800,000	134,302				June 30, 2016
Project #4 Purchase of Technology	600,000	600,000					June 30, 2016
Other Various Projects	987,900						June 30, 2016
	$ 3,750,000	$ 3,074,952	$ 367,917	$ 1,441,437	$ 0	$ 0	

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.

(2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.

(3) The voters of Hancock County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

See notes to the basic financial statements.

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HANCOCK COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES BY PROGRAM
YEAR ENDED JUNE 30, 2013

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2) (3)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 339,313	$ 340,470	$ -124	$ 340,346
Kindergarten Program-Early Intervention Program	50,336			
Primary Grades (1-3) Program	756,173	629,552		629,552
Primary Grades-Early Intervention (1-3) Program	217,049	40,970		40,970
Upper Elementary Grades (4-5) Program	374,720	470,758	5,500	476,258
Upper Elementary Grades-Early Intervention (4-5) Program	157,482	81,299		81,299
Middle School (6-8) Program	706,170	973,186	4,768	977,954
High School General Education (9-12) Program	853,908	997,984	6,297	1,004,281
Vocational Laboratory (9-12) Program	155,978	197,677	19,017	216,694
Students with Disabilities	1,249,943			
Category II		300		300
Category III		47,779		47,779
Gifted Student - Category VI	68,925	87,003		87,003
Remedial Education Program	18,323	77,182		77,182
Alternative Education Program	68,422	73,619		73,619
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 5,016,742	$ 4,017,779	$ 35,458	$ 4,053,237
Media Center Program	129,651	152,895		152,895
Staff and Professional Development	25,796			44,894
TOTAL QBE FORMULA FUNDS	$ 5,172,189	$ 4,170,674	$ 35,458	$ 4,251,026

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

(3) Allotments do not include the State Health payments made by GDOE to the Department of Community Health for the certified employees.

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

August 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Hancock County Board of Education

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*

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hancock County Board of Education's basic financial statements and have issued our report thereon dated August 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hancock County Board of Education's internal control over financial reporting 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 Hancock County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Board of Education's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items FS-6701-13-01, and FS-6701-13-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items FS-6701-13-02, FS-6701-13-03, FS-6701-13-05, FS-6701-13-06, FS-6701-13-07 and FS-6701-13-08 to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of Hancock County Board of Education in a separate letter dated August 12, 2014.

Hancock County Board of Education's Response to Findings

Hancock County Board of Education's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hancock County Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013YB-40

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

August 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Hancock County Board of Education

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

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Hancock County Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013. Hancock County Board of Education'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 Hancock County Board of Education's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Hancock County Board of Education'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 Hancock County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hancock County Board of Education complied, in all material respects, with the types of 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item FA-6701-13-01. Our opinion on each major Federal program is not modified with respect to this matter.

Hancock County Board of Education's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hancock County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Hancock County Board of Education 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 Hancock County Board of Education'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 Hancock County Board of Education'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item FA-6701-13-01 that we consider to be a significant deficiency.

Hancock County Board of Education's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hancock County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013SA-40

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER	AUDITEE'S RESPONSE/STATUS	SEE AUDITOR'S COMMENTS
FS-6701-10-02	Further Action Not Warranted	(1)
FS-6701-11-01	Further Action Not Warranted	(1)
FS-6701-11-03	Further Action Not Warranted	(1)
FS-6701-11-04	Further Action Not Warranted	(1)
FS-6701-11-05	Further Action Not Warranted	(1)
FS-6701-11-06	Further Action Not Warranted	(1)
FS-6701-11-07	Further Action Not Warranted	(1)
FS-6701-12-01	Unresolved - See Corrective Action/Responses	
FS-6701-12-02	Unresolved - See Corrective Action/Responses	
FS-6701-12-03	Unresolved - See Corrective Action/Responses	
FS-6701-12-04	Unresolved - See Corrective Action/Responses	
FS-6701-12-05	Previously Reported Corrective Action Implemented	
FS-6701-12-06	Partially Resolved - See Corrective Action/Responses	
FS-6701-12-07	Unresolved - See Corrective Action/Responses	
FS-6701-12-08	Partially Resolved - See Corrective Action/Responses	
FS-6701-12-09	Unresolved - See Corrective Action/Responses	

AUDITOR'S COMMENTS

(1) Findings of this nature have been repeated in fiscal year 2012 and fiscal year 2013.

CORRECTIVE ACTION/RESPONSES

ACCOUNTING CONTROLS (OVERALL)
Inadequate Access Controls-Separation of Duties
Finding Control Number: FS-6701-12-01

We concur with this finding. The School District will implement procedures to ensure that access control duties are separated.

CASH AND CASH EQUIVALENTS
Inadequate Internal Control Procedures
Finding Control Number: FS-6701-12-02

We concur with this finding. The School District will implement procedures for designing and maintaining internal controls over Cash and Cash Equivalents.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
Inadequate Internal Controls over School Activity Accounts
Finding Control Number: FS-6701-12-03

We concur with this finding. The School District will revise and monitor controls to provide reasonable assurance that transactions are processed according to established procedures and implement procedures to ensure that key accounting functions of custody, record keeping, and authorization are separated, utilize management oversight of these incompatible activities, and implement procedures to ensure that expenditures of school activity accounts are properly documented and approved prior to payment.

BUDGET PREPARATION/EXECUTION
Failure to Adopt a Balanced Budget
Finding Control Number: FS-6701-12-04

We concur with this finding. The School District will establish policies and procedures to ensure that the adopted budget for each budgeted fund is balanced as required.

EXPENDITURES/LIABILITIES/DISBURSEMENTS
Inadequate Accounting Procedures
Finding Control Number: FS-6701-12-06

We concur with this finding. The School District will develop and implement procedures sufficient to ensure that all expenditures are properly approved, adequately documented, follow State and local procurement policies, and are recorded in the proper account and accounting period.

EMPLOYEE COMPENSATION
Inaccurate Salary Calculations
Finding Control Number: FS-6701-12-07

We concur with this finding. The School District will implement procedures to ensure salary payments are accurately calculated and documented.

GENERAL LEDGER
Inadequate Accounting Procedures
Finding Control Number: FS-6701-12-08

We concur with this finding. The School District will review current internal control procedures to ensure that journal entries are properly approved, documented, and posted in the accounting records.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

CAPITAL ASSETS
Failure to Adequately Maintain Capital Assets
Finding Control Number: FS-6701-12-09

We concur with this finding. The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FA-6701-10-01	Previously Reported Corrective Action Implemented
FA-6701-10-02	Partially Resolved - See Corrective Action/Responses
FA-6701-10-03	Previously Reported Corrective Action Implemented
FA-6701-10-06	Previously Reported Corrective Action Implemented
FA-6701-11-01	Previously Reported Corrective Action Implemented
FA-6701-11-02	Previously Reported Corrective Action Implemented
FA-6701-11-03	Unresolved - See Corrective Action/Responses
FA-6701-11-06	Previously Reported Corrective Action Implemented
FA-6701-12-01	Previously Reported Corrective Action Implemented
FA-6701-12-02	Partially Resolved - See Corrective Action/Responses
FA-6701-12-03	Unresolved - See Corrective Action/Responses
FA-6701-12-04	Partially Resolved - See Corrective Action/Responses

CORRECTIVE ACTION/RESPONSES

ACTIVITIES ALLOWED/UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
PROCUREMENT, SUSPENSION AND DEBARMENT
Inadequate Internal Control Procedures
U. S. Department of Agriculture
Through Georgia Department of Education
Child Nutrition Cluster (CFDA 10.553 and 10.555)
Questioned Cost: $645.97
Finding Control Number: FA-6701-10-02

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under OMB Circular A-87, approved by program director and Superintendent or Designee and properly documented.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

ACTIVITIES ALLOWED/UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
U. S. Department of Health and Human Services
Head Start Cluster (CFDA 93.600, 93.708 and 93.709)
Questioned Cost: $1,020.02
Finding Control Number: FA-6701-11-03

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under OMB Circular A-87, approved by the program director and Superintendent or Designee and properly documented. In addition, we are waiting on Head Start to determine whether a refund is due.

ACTIVITIES ALLOWED/UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
U. S. Department of Agriculture
Through Georgia Department of Education
Child Nutrition Cluster (CFDA 10.553 and 10.555)
Questioned Cost: $2,150.50
Finding Control Number: FA-6701-12-02

The Hancock County Board of Education has implemented internal controls for monitoring compliance with Federal guidelines. The School District has reviewed the internal controls for Federal compliance procedures in place, designed procedures which will enhance monitoring compliance with Federal guidelines and implemented proper internal controls relative to the findings of School Breakfast Program (CFDA No. 10.533), and the Food Services – National School Lunch Program (CFDA No 10.555).

Auditor's Comment: The School District returned $2,150.50 to Georgia Department of Education during fiscal year 2014.

ACTIVITIES ALLOWED/UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
U. S. Department of Health and Human Services
Head Start Cluster (CFDA 93.600)
Questioned Cost: $10,076.73
Finding Control Number: FA-6701-12-03

The School District will implement procedures to ensure that all expenditures charged to Federal programs are allowable under OMB Circular A-87, approved by the program director, and Superintendent or Designee and properly documented. In addition, we are waiting on Head start to determine whether a refund is due.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

SPECIAL REPORTING
Inadequate Internal Control Procedures
U. S. Department of Agriculture
Through Georgia Department of Education
Child Nutrition Cluster (CFDA 10.553 and 10.555)
Finding Control Number: FA-6701-12-04

The School District has implemented internal controls. The School District has reviewed the internal controls for Federal compliance procedures, and has designed procedures which will enhance compliance with Federal guidelines and implemented proper internal controls relative to the findings of the School Breakfast Program (CFDA No 10.533), and the Food Services – National School Lunch Program (CFDA No 10.555).

SECTION IV

FINDINGS AND QUESTIONED COSTS

HANCOCK COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:
Governmental Activities; General Fund; Capital Projects Fund; Debt Service Fund; Aggregate Remaining Fund Information — Unmodified

Internal control over financial reporting:
- Material weaknesses identified? — Yes
- Significant deficiencies identified? — Yes

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — No
- Significant deficiencies identified? — Yes

Type of auditor's report issued on compliance for major programs:
All major programs — Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? — Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I, Part A Cluster
84.287	Twenty-First Century Community Learning Centers
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs: $300,000.00

Auditee qualified as low-risk auditee? — No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding Control Number:	FS-6701-13-01
	Inadequate Access Controls - Separation of Duties
Control Category:	Accounting Controls (Overall)
Internal Control Impact:	Material Weakness
Compliance Impact:	N/A

Description:
This is a repeat finding (FS-6701-12-01, FS-6701-11-01, and FS-6701-10-01) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. The policies and procedures of the School District were insufficient to provide adequate controls over logical access to the School District's financial system.

Criteria:
The School District's management is responsible for providing policies and procedures that allow for the granting of proper access to the School District's financial systems. Access should be reasonable for the user's job duties and no user should be able to perform conflicting duties within the logical environment in the absence of compensating controls outside of the financial system. In addition, finance personnel should not have administrator roles within the financial system.

Condition:
A review of access to the School District's financial system revealed several users were granted access that allowed the user to perform conflicting significant duties. A test of compensating controls outside of the financial system revealed those controls were not effective, and therefore, the access that allowed for conflicting duties could have an effect on data that is used in the preparation of the financial statements. In addition, finance personnel were granted administrator roles which allows for addition, modification, and deletion of user access in the financial system. Additionally, physical access to the server room was not limited to technology personnel only.

Cause:
In discussing this deficiency with management, they stated that the cause was a direct result of the lack of personnel at the School District. Properly separating conflicting significant duties for personnel would negatively impact the School District in day-to-day operations.

Effect or Potential Effect:
The lack of adequate controls over the logical access to the School District's financial system may result in errors and/or irregularities not being detected in a timely manner.

Recommendation:
Application access controls in the accounting information systems should complement the system of internal control by limiting and employee's access to only the accounting functions necessary for the performance of that employee's duties. In the case when management determines separation of duties is not cost beneficial, management should implement compensating controls that assist in assuring that financial transactions are properly processed and reported.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will implement procedures to ensure that access control duties are segregated.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Contact persons: Gwendolyn J. Reeves, Superintendent
Alma D. Harper, Finance Director
Matthias Jones, Assistant Finance Director
Email addresses: greeves@hancock.k12.ga.us
aharper@hancock.k12.ga.us
mjones@hancock.k12.ga.us
Phone numbers: 706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number: FS-6701-13-02
Inadequate Internal Control Procedures
Control Category: Cash and Cash Equivalents
Internal Control Impact: Significant Deficiency
Compliance Impact: N/A

Description:
This is a repeat finding (FS-6701-12-02, FS-6701-11-02, and FS-6701-10-02) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. The accounting procedures of the School District were insufficient to provide adequate internal control procedures over the Cash and Cash Equivalents function.

Criteria:
The School District's management is responsible for designing and maintaining an adequate system of internal controls that ensure that all cash accounts are supported by and reconciled to either cash on hand or bank accounts held at authorized financial institutions.

Condition:
A review of three random months of bank reconciliations for all bank accounts revealed the following deficiencies:

- No administrative review was performed on bank reconciliations for the Head Start, SPLOST, School Nutrition, Payroll and General Operations accounts.
- Reconciling items for the Payroll account were not properly addressed in a timely manner.

Cause:
In discussing this deficiency with the School District, they stated that the cause was a direct result of the lack of resources to ensuring that internal controls were effective.

Effect or Potential Effect:
The lack of adequate control over cash increases the risk for theft, fraud, or misuse of School District resources which may result in errors and/or irregularities not being detected in a timely manner.

Recommendation:
The School District should establish procedures to ensure all bank reconciliations are reviewed and all reconciling items are properly addressed in a timely manner.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will implement procedures for designing and maintaining internal controls over Cash and Cash Equivalents.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number:	FS-6701-13-03 Inadequate Internal Controls over School Activity Accounts
Control Category:	Cash and Cash Equivalents Expenditures/Liabilities/Disbursements Revenues/Receivables/Receipts
Internal Control Impact:	Significant Deficiency
Compliance Impact:	N/A

Description:
This is a repeat finding (FS-6701-12-03, FS-6701-11-03, and FS-6701-10-03) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. The accounting procedures of the School District were insufficient to provide adequate internal controls over school activity accounts.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are accurately processed according to established procedures.

Condition:
Cash and Cash Equivalents
A review of three months of bank reconciliations revealed the following deficiencies:

- No administrative review was performed on bank reconciliations for the Hancock County Middle School, Hancock County High School and M. E. Lewis Elementary School.
- Adequate supporting documentation was not provided for the M. E. Lewis Elementary School reconciliations to determine if the account was properly reconciled for any of the three months reviewed.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Expenditures/Liabilities/Disbursements
A review of fifty vouchers revealed the following deficiencies:

- Seventeen expenditures tested had no evidence of an invoice, a purchase order, or other supporting documentation.
- Two expenditures tested were not properly classified between governmental and agency funds.
- Thirty seven expenditures tested were not properly recorded in the correct account.
- Expenditures in the amount of $3,999.05 were made for unallowable expenses.
- Twenty expenditures tested were not preapproved.
- Two expenditures tested were recorded in the wrong period.
- One voucher did not indicate a receipt of goods.

Revenues/Receivables/Receipts
A review of thirty-three receipts revealed the following deficiencies:

- Twenty receipts tested were not supported by adequate documentation.
- Two receipts selected for testing were not provided for review.
- Twelve receipts tested were recorded in the incorrect account based on documentation provided.
- Twenty-six receipt packages tested were not signed by the Principal of the respective school signifying their accuracy and that the amount of the deposit has been posted to the ledger per School District policy.

Questioned Cost:
$3,999.05

Cause:
In discussing this deficiency with the School District, they stated that the cause was a direct result of the lack of time and resources to train Board personnel responsible for school activity account functions.

Effect or Potential Effect:
The lack of adequate controls increases the risk of theft, fraud, or misuse of School District resources that may result in errors and/or irregularities not being detected in a timely manner.

Recommendation:
The School District should implement procedures to ensure that disbursements and receipts of funds within the school activity accounts are adequately documented and recorded in the financial records. The School District should also establish a monitoring process to provide reasonable assurance that transactions are processed according to established procedures and that cash accounts are properly reconciled.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will revise and monitor controls to provide reasonable assurance that transactions are processed according to established procedures and implement procedures to ensure that key accounting functions of custody, record keeping, and authorization are separated, utilize management oversight of these incompatible activities, and implement procedures to ensure that expenditures of school activity accounts are properly documented and approved prior to payment.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Contact persons: Gwendolyn J. Reeves, Superintendent
Alma D. Harper, Finance Director
Matthias Jones, Assistant Finance Director
Email addresses: greeves@hancock.k12.ga.us
aharper@hancock.k12.ga.us
mjones@hancock.k12.ga.us
Phone numbers: 706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number: FS-6701-13-04 Budget Preparation/Execution
Control Category: Deficit Fund Balance
Internal Control Impact: Material Weakness
Compliance Impact: Nonmaterial Noncompliance

Description:

This is a repeat finding (FS-6701-12-04, FS-6701-11-04, and FS-6701--10-04) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. At June 30, 2013, the General Fund of the Hancock County Board of Education reported a deficit fund balance. In addition the School District failed to adopt a balanced budget for the General Fund.

Criteria:

Chapter 25 *Governmental Fund Deficits* of the Financial Management for the Georgia Local Units of Administration states in part: "The seriousness of the fund balances deficits cannot be overstated. The Georgia Department of Education requires those LUAs with deficit governmental fund balances to meet certain reporting requirements".

Chapter 32, *Preparing Operating Budgets*, of the Financial Management for Georgia Local Units of Administration (FMGLUA) states in part: "The budget must be balanced for all budgeted funds. Total anticipated revenues should equal total estimated expenditures. In the event anticipated revenues are insufficient to fund anticipated essential expenditures, a portion of unreserved fund balance from previous years must be used to fund the shortfall. In the event there is insufficient unreserved fund balance from previous years to fund anticipated expenditures, then such expenditures must be reduced to equal anticipated revenues plus available unreserved fund balance".

The Department of Audits and Accounts is required to report all instances of budget deficits in accordance with the Official Code of Georgia Annotated §20-2-67(a) which states: "When an audit by the Department of Audits and Accounts finds and reports irregularities or budget deficits in the fund accounting information regarding a local school system or a school within the local school system, the Department of Audits and Accounts shall report the findings of irregularities or budget deficits to the State Board of Education and the local board of education."

Condition:

The School District's General Fund reported a deficit unassigned fund balance in the amount of $648,356 at June 30, 2013. In addition, the School District's final budget for the General Fund was not balanced. Total anticipated revenues did not equal or exceed total estimated expenditures.

Cause:

The Hancock County Board of Education adopted an unbalanced budget for the General Fund.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Effect or Potential Effect:
The unassigned fund balance of the General Fund is not sufficient to meet the fund's obligations at June 30, 2013. This is a financial statement irregularity required to be reported in accordance with the Official Code of Georgia Annotated §20-2-67.

Recommendation:
The School District should establish policies and procedures to ensure that expenditures do not exceed availability of resources, so that in future periods the School District does not report a deficit fund balance. In addition, appropriate procedures should be implemented to ensure that the adopted budget for each budgeted fund is balanced as required.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will establish policies and procedures to ensure that the school district eliminates its deficit fund balance as required.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number:	FS-6701-13-05 Inadequate Internal Controls over Expenditures
Control Category:	Expenditures/Liabilities/Disbursements
Internal Control Impact:	Significant Deficiency
Compliance Impact:	N/A

Description:
This is a repeat finding (FS-6701-12-06, FS-6701-11-05, and FS-6701-10-05) from the years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. The School District did not have adequate controls over the expenditure process.

Criteria:
The School Districts management is responsible for maintaining internal controls that provide reasonable assurance that all transactions are properly approved, documented, processed and reported in accordance with State law, procedures established by the Georgia Department of Education and School District policies and procedures.

Condition:
A review of fifty-eight expenditure vouchers revealed the following deficiencies:

- Eight vouchers did not have evidence of receipt.
- One voucher had no invoice or other supporting documentation.
- Twelve vouchers were recorded in the wrong object code.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Cause:
In discussing this deficiency with the School District, they stated that they believe they have the proper procedures in place over the expenditure process, however, those procedures were not adequately monitored and implemented to ensure that they were functioning as intended.

Effect or Potential Effect:
The lack of adequate controls over the expenditure process may result in misstatements which would not be detected and corrected by management.

Recommendation:
The School District should review the controls and procedures currently in place, identify weaknesses, and design and implement procedures necessary to strengthen controls over the expenditure process.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will ensure that adequate controls are in place to ensure that all required activity is included in the financial statement information presented for the audit.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number:	FS-6701-13-06 Inaccurate Salary Calculations
Control Category:	Employee Compensation
Internal Control Impact:	Significant Deficiency
Compliance Impact:	N/A

Description:
This is a repeat finding (FS-6701-12-07) from the year ended June 30, 2012. The School District did not ensure the accuracy of salary calculations.

Criteria:
The School Districts management is responsible for maintaining, designing and implementing controls that provide reasonable assurance that all employees are accurately paid according to the approved salary schedules.

Condition:
Based on a review of fifteen employee payroll records, the following deficiencies were noted:

- One employee was not paid in accordance with the approved salary schedule resulting in underpayment of $449.61.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

- One employee was not paid according to any documented approved salary schedule.
- One employee was overpaid $250.44 based on documentation provided.
- One employee was overpaid $416.12 based on documentation provided.

Cause:
In discussing this deficiency with the School District, they stated that the cause was due to a breakdown in their internal controls. They did not properly monitor and implement procedures to ensure that all employees' salaries were calculated and based off approved salary schedules.

Effect or Potential Effect:
The lack of adequate controls over employee compensation process may result in misstatements which would not be detected and corrected by management.

Recommendation:
The School District should review the controls and procedures currently in place, identify weaknesses, and design and implement procedures necessary to strengthen monitoring controls over the employee compensation calculations.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The School District will implement procedures to ensure salary payments are accurately calculated and documented.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number:	FS-6701-13-07
	Inadequate Accounting Procedures
Control Category:	General Ledger
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance

Description:
This is a repeat finding (FS-6701-12-08, FS-6701-11-06, and FS-6701-10-06) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. A review of internal control procedures revealed that the School District did not ensure journal entries were properly documented and approved in a timely manner.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance transactions are properly documented and approved in accordance with State law, procedures established by the Georgia Department of Education, and the School District's policies and procedures.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Condition:

A review of twenty-nine journal entries revealed the following:

- One journal entry did not have supporting documentation.
- Nine journal entries were not approved in a timely manner.
- One journal entry was not approved.
- Procedures were not in place to ensure journal entries were approved by someone independent of general ledger journal entry function.

Cause:

In discussing this deficiency with the School District, they stated that the cause was a result of management not adequately monitoring control procedures and lack of resources to create enhanced separation of duties.

Effect or Potential Effect:

The lack of adequate control over the journal entry process may result in misstatements due to fraud or error which would not be detected in a timely manner.

Recommendation:

The School District should review current internal control procedures to ensure journal entries are properly approved by someone independent of the general ledger function and properly documented.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. The School District will review current internal control procedures to ensure that journal entries are properly approved, documented, and posted in the accounting records.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

Finding Control Number:	FS-6701-13-08
Control Category:	Capital Assets
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance

Description:

This is a repeat finding (FS-6701-12-09, FS-6701-11-07, and FS-6701-10-07) from fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, respectively. The School District did not adequately maintain capital assets records.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Criteria:

Chapter 37 *Implementing a Capital Assets Management System* of the Financial Management for Georgia Local Units of Administration indicates that School Districts must establish fixed asset policies, define system requirements, implement a fixed asset system, and maintain fixed asset records.

Condition:

A review of the School District's capital asset records revealed deficiencies as discussed below:

- The School District lacked proper internal controls to detect significant errors in a timely manner.
- The capital asset listing, as presented, did not provide elements of information as required such as asset identifiers and location identifiers.
- Several assets on the capital asset listing were no longer owned by the School District.
- Assets had been removed from the asset listing that were still owned by the School District.
- Several assets appeared to be impaired in accordance with GASB 42. The School District did not adhere to its capital asset policy in determining the status of assets.
- Depreciation expense was not calculated in according with the School District's capital asset policy.
- Additions in the amount of $65,001 were not added to the assets listing.
- A physical review of fifty-eight capital assets revealed the following deficiencies:
    - Three assets could not be located due to incorrect information on the capital asset listing.
    - Fourteen assets were not properly tagged.
    - Seven assets were in an incorrect location.

Cause:

In discussing this deficiency with the School District, they stated that the cause was a direct result of the lack of time and resources to ensure adequate procedures are in place to process, record and report capital assets.

Effect or Potential Effect:

The failure of the School District to maintain a complete and accurate capital asset listing can lead to inaccurate internal and external reporting as well as noncompliance with generally accepted accounting principles.

Recommendation:

The School District should reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review should be performed to ensure the accuracy of capital asset records and to make appropriate adjustments to ensure capital assets records and procedures for maintaining capital assets conform to generally accepted accounting principles.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Contact persons: Gwendolyn J. Reeves, Superintendent
Alma D. Harper, Finance Director
Matthias Jones, Assistant Finance Director
Email addresses: greeves@hancock.k12.ga.us
aharper@hancock.k12.ga.us
mjones@hancock.k12.ga.us
Phone numbers: 706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones)

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Control Number: FA-6701-13-01
Compliance Requirement: Allowable Costs/Cost Principles
Activities Allowed or Unallowed
Period of Availability
Internal Control Impact: Significant Deficiency
Compliance Impact: Nonmaterial Noncompliance
Federal Awarding Agency: U. S. Department of Health and Human Services
Pass-Through Entity: Georgia Department of Education
CFDA Number and Title: CFDA 93.600 Head Start

Description:
This is a repeat finding (FA-6701-12-03 and FA-6701-11-03), from fiscal years ending June 30, 2012 and June 30, 2011, respectively. A review of expenditures charged to the Head Start (CFDA 93.600) program revealed the School District did not implement internal control procedures to ensure expenditures were properly documented, allowable and recorded in the correct period.

Criteria:
Provisions of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, require that "to be allowable under Federal awards, costs must be…authorized or not prohibited under state or local laws or regulations" and "be adequately documented".

Condition:
A review of twenty-five expenditure vouchers for the Head Start program revealed the following deficiencies:

- Two vouchers totaling $345.10 were determined to be unallowable.
- One voucher package showed no evidence of receipt.
- One voucher in the amount of $1,154.27 was incorrectly recorded in the subsequent period.
- Several vouchers were recorded in the wrong account.

A review of five payroll records for the Head Start Cluster programs revealed the following deficiency:

- One employee was overpaid in the amount of $2,070.21 due to error in calculation of salary.

Questioned Cost:
$3,569.58

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Cause:

Management failed to monitor compliance with Federal guidelines to ensure expenditures charged to the Federal Program were allowable, in the correct period, contained evidence of receipt, and employee salaries properly calculated.

Effect or Potential Effect:

Failure to ensure program expenditures are allowable and recorded in the correct period resulted in noncompliance with requirements of the Federal grant.

Recommendation:

The School District should implement procedures to ensure all expenditures charged to the Federal Program are allowable under OMB Circular A-87, in the correct period, and properly documented by management. In addition, the Georgia Department of Education should review this matter to determine if a reclaim of grant funds is appropriate.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. The School District will implement procedures to ensure that all expenditures charged to Federal programs are allowable under OMB Circular A-87, approved by the program director, and Superintendent or Designee and properly documented.

Contact persons:	Gwendolyn J. Reeves, Superintendent Alma D. Harper, Finance Director Matthias Jones, Assistant Finance Director Angela Primus, Head Start Director
Email addresses:	greeves@hancock.k12.ga.us aharper@hancock.k12.ga.us mjones@hancock.k12.ga.us aprimus@hancock.k12.ga.us
Phone numbers:	706-444-5775 ext. 236 (Reeves) ext. 276 (Harper) ext. 125 (Jones) ext. 240 (Primus)