HANCOCK COUNTY
BOARD OF EDUCATION

ANNUAL FINANCIAL REPORT
(Including Independent Auditor's Reports)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

HANCOCK COUNTY BOARD OF EDUCATION

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SECTION I

FINANCIAL

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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 15, 2017

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 of the Hancock County Board of Education (School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from 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

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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 basic financial statements referred to above 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 School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2016, the School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68,* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participant*s. Our opinions are 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 opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Proportionate Share of the Net Pension Liability, Schedule of Contributions to Retirement Systems, Notes to the Required Supplementary Information and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual as presented on and pages 35 through 39, 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.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying supplementary information, consisting of Schedules 6 through 8, 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 Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also 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 15, 2017, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District'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

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HANCOCK COUNTY BOARD OF EDUCATION

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STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 1,069,736
Investments	565
Receivables:	
Taxes	1,657,682
Intergovernmental:	
State	487,586
Federal	1,312,734
Inventory	6,408
Prepaid items	21,337
Capital assets (nondepreciable)	162,777
Capital assets (net of accumulated depreciation)	7,764,126
Total assets	12,482,951
DEFERRED OUTFLOWS OF RESOURCES	
Related to defined benefit pension plans	885,357
LIABILITIES	
Accounts payable	309,862
Salaries and benefits payable	1,058,706
Accrued interest payable	615
Unearned revenue	25,368
Capital leases due within one year	11,001
Capital leases due in more than one year	11,383
Net pension liability	9,260,002
Total liabilities	10,676,937
DEFERRED INFLOWS OF RESOURCES	
Related to defined benefit pension plans	2,109,728
NET POSITION	
Net investment in capital assets	7,904,519
Restricted for:	
Continuation of federal programs	6,408
Capital projects	5,841
Unrestricted (deficit)	(7,335,125)
Total net position	$ 581,643

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:				
Instruction	$ 6,472,206	$ 115,759	$ 4,708,071	$ (1,648,376)
Support services:				
Pupil services	649,083	-	489,110	(159,973)
Improvement of instructional services	668,725	-	478,723	(190,002)
Educational media services	148,240	-	112,684	(35,556)
General administration	375,134	-	565,802	190,668
School administration	894,762	-	624,474	(270,288)
Business administration	298,744	-	23,641	(275,103)
Maintenance and operation of plant	1,679,858	-	487,317	(1,192,541)
Student transportation services	1,152,339	-	561,505	(590,834)
Central support services	343,974	-	1,379	(342,595)
Other support services	188,089	-	87,527	(100,562)
Food service operations	956,493	45,787	947,405	36,699
Interest on long-term debt	10,667	-	-	(10,667)
Total governmental activities	13,838,314	161,546	9,087,638	(4,589,130)

General revenues:	
Taxes:	
Property taxes, levied for maintenance and operations	5,351,708
Sales taxes, for capital projects	213,844
Intangible taxes	5,659
Railroad equipment tax	15,500
Unrestricted investment earnings	3,041
Miscellaneous	190,020
Total general revenues	5,779,772
Change in net position	1,190,642
Net position, beginning of year	(608,999)
Net position, end of year	$ 581,643

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

ASSETS	General	Capital Projects	Debt Service	Total Governmental Funds
Cash and cash equivalents	$ 984,963	$ 84,773	$ -	$ 1,069,736
Investments	-	565	-	565
Receivables:				
Taxes	1,657,179	503	-	1,657,682
Intergovernmental:				
State	487,586	-	-	487,586
Federal	1,312,734	-	-	1,312,734
Due from other funds	80,000	-	-	80,000
Prepaid items	21,337	-	-	21,337
Inventory	6,408	-	-	6,408
Total assets	$ 4,550,207	$ 85,841	$ -	$ 4,636,048
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 309,862	$ -	$ -	$ 309,862
Salaries and benefits payable	1,058,706	-	-	1,058,706
Due to other funds	-	80,000	-	80,000
Unearned revenue - grants	25,368	-	-	25,368
Total liabilities	1,393,936	80,000	-	1,473,936
DEFERRED INFLOWS				
Unavailable revenue - property taxes	1,510,974	-	-	1,510,974
FUND BALANCES				
Nonspendable:				
Inventory	6,408	-	-	6,408
Prepaid items	21,337	-	-	21,337
Restricted:				
Capital projects	-	5,841	-	5,841
Unassigned	1,617,552	-	-	1,617,552
Total fund balances	1,645,297	5,841	-	1,651,138
Total liabilities, deferred inflows, and fund balances	$ 4,550,207	$ 85,841	$ -	$ 4,636,048

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Total fund balances - governmental funds (Exhibit "C")			$ 1,651,138
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.			
	Cost	$ 19,443,378	
	Less accumulated depreciation	(11,516,475)	7,926,903
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.			
	Property taxes		1,510,974
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
	Accrued interest	$ (615)	
	Deferred outflows - pension plans	885,357	
	Deferred inflows - pension plans	(2,109,728)	
	Net pension liability	(9,260,002)	
	Capital leases	(22,384)	(10,507,372)
Net position of governmental activities (Exhibit "A")			$ 581,643

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Property taxes	$ 5,604,466	$ -	$ -	$ 5,604,466
Sales taxes	21,159	213,844	-	235,003
State funds	4,440,429	-	-	4,440,429
Federal funds	4,683,470	-	-	4,683,470
Charges for services	161,546	-	-	161,546
Investment earnings	2,408	633	-	3,041
Miscellaneous	190,020	-	-	190,020
Total revenues	15,103,498	214,477	-	15,317,975
EXPENDITURES				
Current:				
Instruction	6,595,583	-	-	6,595,583
Support Services:				
Pupil services	671,500	-	-	671,500
Improvement of instructional services	702,355	-	-	702,355
Educational media services	159,905	-	-	159,905
General administration	379,464	-	-	379,464
School administration	965,980	-	-	965,980
Business administration	312,441	-	-	312,441
Maintenance and operation of plant	1,639,530	-	-	1,639,530
Student transportation services	1,016,372	-	-	1,016,372
Central support services	357,144	-	-	357,144
Other support services	197,499	-	-	197,499
Food services operation	965,639	-	-	965,639
Debt service:				
Principal retirement	28,186	227,590	220,000	475,776
Interest and fees	1,567	7,059	9,020	17,646
Total expenditures	13,993,165	234,649	229,020	14,456,834
Excess (deficiency) of revenues over (under) expenditures	1,110,333	(20,172)	(229,020)	861,141
OTHER FINANCING SOURCES (USES)				
Transfers in	133,592	-	229,020	362,612
Transfers out	-	(362,612)	-	(362,612)
Total other financing sources (uses)	133,592	(362,612)	229,020	-
Net change in fund balances	1,243,925	(382,784)	-	861,141
FUND BALANCE, beginning of year	401,372	388,625	-	789,997
FUND BALANCE, end of year	$ 1,645,297	$ 5,841	$ -	$ 1,651,138

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (Exhibit "E")		$ 861,141
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net effect of the amount by which depreciation exceeded capital outlay is to decrease net position.		
Capital outlay	$ 5,200	
Depreciation expense	(525,615)	(520,415)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		(252,758)
Issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments - bonds	$ 220,000	
Principal payments - capital leases	255,776	
Change in net pension liability and deferred inflows and outflows related to pension activity	619,919	1,095,695
Some expenses 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.		
Change in accrued interest		6,979
Changes in net position of governmental activities (Exhibit "B")		$ 1,190,642

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 43,528
Accounts receivable	7,677
Total assets	$ 51,205
LIABILITIES	
Accounts payable	$ 1,198
Funds held for others	50,007
Total liabilities	$ 51,205

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

The accompanying financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the School District's accounting policies are described below.

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements and notes to the basic financial statements of the Hancock County Board of Education. The government-wide statements focus on the School District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

Government-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 Net Position presents the School District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories as follows:

1. **Net investment in capital assets** consists of the School District's total investment in capital assets, net of accumulated depreciation, and reduced by 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.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Statements (Continued)

2. **Restricted net position** consists of resources for which the School District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or imposed by law through constitutional provisions or enabling legislation.
3. **Unrestricted net position** consists of resources not meeting the definition of the two preceding categories. Unrestricted net positon often has constraints on resources imposed by management which can be removed or modified.

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 are presented for governmental and fiduciary funds. 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:

- The *General Fund* is the School District's primary operating fund. It accounts for and reports all financial resources of the School District, except those resources required to be accounted for in another fund.
- The *Capital Projects Fund* accounts for and reports financial resources including Education Special Purpose Local Option Sales Tax (ESPLOST) and Bond Proceeds that are restricted, committed, or assigned to the expenditure for capital outlay expenditures, including the acquisition or construction of capital facilities and other capital assets.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

- The *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:

- The *Agency Fund* is used to report resources held by the School District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

The basis of accounting determines when transactions are reported in the financial statements. The government-wide governmental activities and fiduciary fund 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, grants and donations. 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 and donations 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 tax revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. All other revenues are considered to be available if they are collected within 120 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.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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, there is both restricted and unrestricted net position 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.

The State of Georgia reimburses the School District for teachers' salaries and operating costs through the Quality Basic Education (QBE) Formula Earnings program. State of Georgia law defines the formula driven grant that determines the cost of an academic school year and the State of Georgia's share in this cost. Generally teachers are contracted for the school year (July 1 – June 30) and paid over a twelve month contract period, generally September 1 through August 31. In accordance with the requirements of the enabling legislation of the QBE program, the State of Georgia reimburses the School District over the same twelve month period in which teachers are paid, funding the academic school year expenditures. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued as the State of Georgia has only postponed the final payment of their share of the cost until the subsequent appropriations for cash management purposes. By June 30 of each year, the State of Georgia has a signed appropriation that includes this final amount, which represents the State of Georgia's intent to fund this final payment. Based on guidance in Government Accounting Standards Board (GASB) Statement No. 33, paragraph 74, the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, and the School District recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

New Accounting Pronouncements

In fiscal year 2016, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this statement does not have a significant impact on the School District's financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In fiscal year 2016, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The adoption of this statement does not have a significant impact on the School District's financial statements.

In fiscal year 2016, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. If an external investment pool meets the criteria in this statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. The School District participates in an external investment pool, the State of Georgia local government investment pool (Georgia Fund 1), which does not meet the criteria of this statement. Therefore, the investment in this pool is measured at fair value as provided in paragraph 11 of GASB Statement No. 31, as amended.

Cash and Cash Equivalents

Composition of Deposits - Cash and cash equivalents consist of cash on hand, demand deposits, investments in the State of Georgia local government investment pool (Georgia Fund 1) 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 (O.C.G.A.) §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 - The School District can invest its funds as permitted by O.C.G.A. §36-83-4. 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.

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.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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. All other investments are reported at fair value.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

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 in the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectable receivables.

Due to other funds and due from other funds consist of activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year.

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 future accounting periods are recorded as prepaid items, in both the government-wide and governmental fund financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

On the government-wide financial statements, capital assets are recorded 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 acquisition value on the date donated. 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. The School District does not capitalize book collections or works of art.

Capital acquisition and construction are recorded as expenditures in the governmental fund financial statements at the time of purchase (including ancillary charges), and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is computed using the straight-line for all assets, except land, and is used to allocate the actual or estimated historical cost of capital assets over estimated useful lives.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-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
Equipment	5,000	3 to 20 Years
Intangibles	300,000	3 to 20 Years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Liabilities and Bond Discounts/Premiums

In the School District's government-wide financial statements, outstanding debt is reported as liabilities. Bond premiums and discounts and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the life of the bonds using the straight-line method. To conform to generally accepted accounting principles, bond premiums and discounts should be amortized using the effective interest method. The effect of this deviation is deemed to be immaterial to the fair presentation of the basic financial statements. Bond issuance costs are recognized as an outflow of resources in the fiscal year in which the bonds are issued.

In the governmental fund financial statements, the School District recognizes the proceeds of debt and premiums as other financing sources of the current period. Bond issuance costs are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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

Nonspendable – Amounts that are not in spendable form (e.g., inventory and prepaid items) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

Restricted – Constraints 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 only be used for the specific purposes determined by a formal action of the Board. 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.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Assigned – Amounts intended to be used by the government for specific purposes. Intent can be expressed by the Board of Education or a by a designee to whom the Board of Education delegates authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates the resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – Amounts within the General Fund not meeting the definition of any aforementioned category. The General Fund is the only fund that reports positive unassigned fund balance. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

The responsibility for designating funds to specific classification is as follows:

Committed Fund Balance – 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. Funds should be committed prior to the end of the fiscal year, although the exact amount may be determined in the subsequent fiscal year.

Assigned Fund Balance – The Board of Education has authorized the Superintendent and the Director of Finance as officials authorized to assign fund balance to a specific purpose in accordance with the School District's policy.

When multiple categories of fund balances are available for expenditures, 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.

Fund Deficits

The fund reporting a deficit fund balance at June 30, 2016, is as follows:

Fund Type/Fund Name	Deficit Balance
Governmental Fund Type	
School Nutrition Fund	$ 88,954

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 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

The Hancock County Board of Commissioners adopted the property tax levy for the 2015 tax digest year (calendar year) on September 13, 2015 (levy date) based on property values as of January 1, 2015. Taxes were due on November 20, 2015 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2015 tax digest are reported as revenue in the governmental funds for fiscal year 2016. 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, 2016, for maintenance and operations amounted to $5,420,153.

The tax millage rate levied for the 2015 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	14.342 mills

Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, amounted to $184,313 during the fiscal year ended June 30, 2016.

Sales Taxes

Education Special Purpose Local Option Sales Tax (ESPLOST), at the fund reporting level, during the year amounted to $213,844 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.

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 the 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.

Note 3: BUDGETARY DATA (CONTINUED)

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 circumstances is the Superintendent or other staff person authorized to spend funds that exceed the total budget without approval by the Board.

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

Note 4: DEPOSITS, CASH EQUIVALENTS, AND INVESTMENTS

Collateralization of Deposits - Official Code of Georgia Annotated (OCGA) Section 45-8-12, provides that there shall not be on deposit at any time in any depository for a time longer than 10 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 (OCGA 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,

Note 4: DEPOSITS, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

(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 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 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, 2016, the School District had deposits with a carrying value of $1,028,839 and bank balances of $1,668,937. The bank balances were entirely covered by Federal depository insurance or collateralized with securities held by the pledging financial institution's agent in the School District's name.

Categorization of Cash Equivalents

The School District reported cash equivalents of $84,425 in Georgia Fund 1, a local government investment pool, which is included in the cash balances above. Georgia Fund 1 is not registered with the SEC as an investment company and does not operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, $1.00 per share, which approximates fair value. The pool is an AAAf rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2016, was 42 days.

The Georgia Fund 1, (local government investment pool), is administered by the State of Georgia, Office of the State Treasurer and is not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of the State Treasurer for the Georgia Fund 1, does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia Comprehensive Annual Financial Report*. This audit can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

Note 4: DEPOSITS, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Categorization of Investments

At June 30, 2016, the School District had the following investment:

Investment	Maturities	Rating*	Fair Value
Fidelity Institutional Treasury (money market mutual fund)	34 day weighted average	AAAm	$ 565

**Rating as per Standard & Poor's*

Fair Value of Investments - The School District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices for identical investments in active markets;
Level 2: Observable inputs other than quoted market prices; and,
Level 3: Unobservable inputs.

The School District's investment, as detailed above, is valued using the market observable information for identical or similar instruments in the market (Level 2).

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates of debt investments 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.

As of June 30, 2016, $565 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. State law limits investments to those prescribed by O.C.G.A section 36-83-4. 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 capital assets during the fiscal year:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 162,777	$ -	$ -	$ 162,777
Total	162,777	-	-	162,777
Capital assets, being depreciated:				
Buildings and improvements	15,331,483	-	-	15,331,483
Equipment	3,662,112	5,200	(45,923)	3,621,389
Land improvements	327,729	-	-	327,729
Total	19,321,324	5,200	(45,923)	19,280,601
Less accumulated depreciation for:				
Buildings and improvements	(8,162,316)	(320,313)	-	(8,482,629)
Equipment	(2,739,296)	(183,453)	45,923	(2,876,826)
Land improvements	(135,171)	(21,849)	-	(157,020)
Total	(11,036,783)	(525,615)	45,923	(11,516,475)
Total capital assets, being depreciated, net	8,284,541	(520,415)	-	7,764,126
Governmental activities capital assets, net	$ 8,447,318	$ (520,415)	$ -	$ 7,926,903

Current year depreciation expense by function is as follows:

Instruction		$ 302,681
Support Services		
Business Administration	$ 3,616	
Maintenance and Operations	58,117	
Student Transportation	154,970	216,703
Food Services		6,231
Total Depreciation Expense		$ 525,615

Note 7: INTERFUND ASSETS, LIABILITIES AND TRANSFERS

Due to and due from other funds are recorded for interfund receivables and payables which arise from interfund transactions. Interfund balances for the year ended June 30, 2016, consisted of the following:

Due To	Due From Capital Projects Fund
General Fund	$ 80,000

Interfund balances were incurred to repay the General Fund for capital construction project expenditures with future SPLOST receipts.

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfers To	Transfers From Capital Projects Fund
General Fund	$ 133,592
Debt Service Fund	229,020
Total Governmental Funds	$ 362,612

Transfers from the Capital Projects Fund were used to move SPLOST revenue to the Debt Service Fund for the payment of bonds. Transfers from the Capital Projects Fund were also used to move SPLOST revenues to the General Fund repay the General Fund for expenditures previously incurred

Note 8: 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 a 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
2016	$ -	$ 3,715	$ 3,715	$ -
2015	$ -	$ -	$ -	$ -

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 9: SHORT–TERM DEBT

Tax Anticipation Note

The School District issued a tax anticipation note in advance of property tax collections, depositing the proceeds into the General Fund. This short-term debt is 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. The maturity date of the loan was December 31, 2015. Draws totaling $1,175,500 were required to meet the cash flow needs of the School District. The note was repaid in full on December 15, 2015.

Note 9: SHORT–TERM DEBT (CONTINUED)

Tax Anticipation Note (Continued)

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

	Beginning Balance	Increases	Decreases	Ending Balance
Tax Anticipation Note	$ -	$ 1,175,500	$ (1,175,500)	$ -

Note 10: LONG–TERM LIABILITIES

Changes in Long-Term Liabilities

The changes in long-term liabilities during the fiscal year ended June 30, 2016, for governmental activities, were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
General Obligation Bonds	$ 220,000	$ -	$ (220,000)	$ -	$ -
Capital Leases	278,160	-	(255,776)	22,384	11,001
Net Pension Liability	8,161,232	2,329,525	(1,230,755)	9,260,002	-
Total	$ 8,659,392	$ 2,329,525	$ (1,706,531)	$ 9,282,386	$ 11,001

Capital Leases

The School District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The following assets were acquired through capital leases and are reflected in the capital asset note at fiscal year-end:

	Governmental Activities
Equipment	$ 733,962
Less: Accumulated Depreciation	(390,679)
Total	$ 343,283

Note 10: LONG–TERM LIABILITIES (CONTINUED)

Capital leases currently outstanding are as follows:

Purpose	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
HVAC System	September 15, 2012	September 15, 2017	$ 65,000	$ 22,384

Scheduled Maturities of Long-Term Liabilities

At June 30, 2016, payments due by fiscal year which include principal and interest for these items are as follows:

Fiscal Year Ended June 30	Capital Leases	
	Principal	Interest
2017	$ 11,001	$ 777
2018	11,383	395
Total Principal and Interest	$ 22,384	$ 1,172

Note 11: 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. Any disallowances resulting from the grantor audit may become a liability of the School District. However, 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 have a material adverse effect on the financial condition of the School District.

Note 12: OTHER POST EMPLOYMENT BENEFITS

Georgia Retiree 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 postemployment 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 Insurance Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (OCGA) 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). Additional information about the School OPEB Fund is disclosed in the State of Georgia *Comprehensive Annual Financial Report.* This report can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

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, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012, 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, 2012, 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.

Note 12: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Georgia Retiree Health Benefit Fund (Continued)

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 30 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, 2016:

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

Period	Contribution
July 2015 - June 2016	$945 per member per month

For non-certificated school personnel:

Period	Contribution
July 2015 - December 2015	$596.20 per member per month
January 2016 - June 2016	$746.20 per member per month

No additional contribution was required by the Board for fiscal year 2016 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 postemployment 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, 2016, 2015 and 2014 was $1,621,964, $1,880,151 and $1,476,738 respectively, which equaled the required contribution.

Note 13: RETIREMENT PLANS

The School District participates in various retirement plans administered by the State of Georgia as further explained below.

Teachers Retirement System of Georgia (TRS)

Plan Description. All teachers of the School District as defined in §47-3-60 of the Official Code of Georgia Annotated (O.C.G.A.) and certain other support personnel as defined by §47-3-63 are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple- employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. The Teachers Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at www.trsga.com/publications.

Benefits Provided. TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee 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. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions. Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2016. The School District's contractually required contribution rate for the year ended June 30, 2016, was 14.27% of annual School District payroll. For the current fiscal year, employer contributions to the pension plan were $885,357 from the School District.

Note 13: RETIREMENT PLANS (CONTINUED)

Public School Employees Retirement System (PSERS)

Plan Description. PSERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers Retirement System of Georgia. The ERS Board of Trustees, plus two additional trustees, administer PSERS. Title 47 of the O.C.G.A., assigns the authority to establish and amend the benefit provisions to the State Legislature. PSERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

Benefits provided. A member may retire and elect to receive normal monthly retirement benefits after completion of ten years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of ten years of service.

Upon retirement, the member will receive a monthly benefit of $14.75, multiplied by the number of years of creditable service. Death and disability benefits are also available through PSERS. Additionally, PSERS may make periodic cost-of-living adjustments to the monthly benefits. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contribution, the member forfeits all rights to retirement benefits.

Contributions. The general assembly makes an annual appropriation to cover the employer contribution to PSERS on behalf of local school employees (bus drivers, cafeteria workers, and maintenance staff). The annual employer contribution required by statute is actuarially determined and paid directly to PSERS by the State Treasurer in accordance with O.C.G.A. §47-4-29(a) and 60(b). Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Individuals who became members prior to July 1, 2012, contribute $4 per month for nine months each fiscal year. Individuals who became members on or after July 1, 2012, contribute $10 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the PSERS Board of Trustees. The current fiscal year contribution was $47,428.

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

At June 30, 2016, the School District reported a liability of $9,260,002 for its proportionate share of the net pension liability for TRS.

The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2015, was determined using standard roll-forward techniques. The School District's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2015.

Note 13: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions (Continued)

At June 30, 2015, the School District's TRS proportion was 0.060825%, which was a decrease of 0.0037744% from its proportion measured as of June 30, 2014.

At June 30, 2016, the School District did not have a PSERS liability for a proportionate share of the net pension liability because of a Special Funding Situation with the State of Georgia, which is responsible for the net pension liability of the plan. The amount of the State's proportionate share of the net pension liability associated with the School District is $187,254.

The PSERS net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2015, was determined using standard roll-forward techniques. The State's proportion of the net pension liability associated with the School District was based on actuarially determined contributions paid by the State during the fiscal year ended June 30, 2015.

For the year ended June 30, 2016, the School District recognized pension expense of $265,715 for TRS and $11,167 for PSERS and revenue of $11,167 for PSERS. The revenue is support provided by the State of Georgia.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	TRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 81,446
Net difference between projected and actual earnings on pension plan investments	-	781,091
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	1,247,191
School District contributions subsequent to the measurement date	885,357	-
Total	$ 885,357	$ 2,109,728

Note 13: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions (Continued)

School District contributions subsequent to the measurement date of $885,357 for TRS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	TRS
2017	$ (719,825)
2018	(719,825)
2019	(719,825)
2020	78,356
2021	(28,609)

Actuarial assumptions: The total pension liability as of June 30, 2015 was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers Retirement System:

Inflation	3.00%
Salary increases	3.75 – 7.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back two years for males and set back three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

Public School Employees Retirement System

Inflation	3.00%
Salary increases	N/A
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Note 13: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table set forward one year for males for the period after service retirement, for dependent beneficiaries, and for deaths in active service, and the RP-2000 Disabled Mortality Table set back two years for males and set forward one year for females for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

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

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00%	3.00%
Domestic large stocks	39.70	6.50
Domestic mid stocks	3.70	10.00
Domestic small stocks	1.60	13.00
International developed market stocks	18.90	6.50
International emerging market stocks	6.10	11.00
Total	100.00%	

* Rates shown are net of the 3.00% assumed rate of inflation

Discount rate. The discount rate used to measure the total TRS and PSERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS and PSERS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 13: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions (Continued)

Sensitivity of the School District's Proportionate share of the Net Pension Liability to changes in the discount rate: The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	$ 15,912,614	$ 9,260,002	$ 3,776,667

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS and PSERS financial reports which are publically available at www.trsga.com/publications and http://www.ers.ga.gov/formspubs/formspubs.html.

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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30

	2016	2015
School District's proportion of the net pension liability	0.060825%	0.064599%
School District's proportionate share of the net pension liability	$ 9,260,002	$ 8,161,232
School District's covered-employee payroll	$ 6,418,380	$ 6,590,342
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	144.27%	123.84%
Plan fiduciary net position as a percentage of the total pension liability	81.44%	84.03%

Note: The measurement date for the year ended June 30, 2016 is June 30, 2015. The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available. The schedule includes all significant plans and funds administered by Hancock County Board of Education.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC SCHOOL EMPLOYEE RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30

	2016	2015
School District's proportion of the net pension liability	0.000000%	0.000000%
School District's proportionate share of the net pension liability	$ -	$ -
State of Georgia's proportionate share of the net pension liability associated with the School District	187,254	170,734
Total	$ 187,254	$ 170,734
School District's covered-employee payroll	$ 819,724	$ 896,034
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	87.00%	88.29%

Note: The measurement date for the year ended June 30, 2016 is June 30, 2015. The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available. The schedule includes all significant plans and funds administered by Hancock County Board of Education.

SCHEDULE OF CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30

	2016	2015
Contractually required contribution	$ 885,357	$ 844,017
Contributions in relation to the contractually required contribution	885,357	844,017
Contribution deficiency (excess)	$ -	$ -
School District's covered-employee payroll	$ 6,204,324	$ 6,418,380
Contributions as a percentage of covered-employee payroll	14.27%	13.15%

Note: The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Teachers Retirement System

***Changes of assumptions*:** In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

***Method and assumptions used in calculations of actuarially determined contributions*:** The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016 reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Inflation rate	3.00%
Salary increases	3.75 – 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Public School Employees Retirement System

***Changes of assumptions*:** The last experience investigation was prepared for the five year period ending June 30, 2009, and based on the results of the investigation various assumptions and methods were revised and adopted by the board on December 16, 2010. The next experience investigation will be prepared for the period July 1, 2009 through June 30, 2014.

***Method and assumptions used in calculations of actuarially determined contributions*:** The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016 reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Five-year smoothed market
Inflation rate	3.00%
Salary increases	N/A
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Cost of living adjustments	1.50% semi-annually

HANCOCK COUNTY BOARD OF EDUCATION

SCHEDULE "5"

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budget			Variance With
	Original [1]	Final [1]	Actual	Final Budget
REVENUES				
Property taxes	$ 5,133,676	$ 5,133,676	$ 5,604,466	$ 470,790
Sales taxes	22,000	22,000	21,159	(841)
State funds	5,721,087	5,742,835	4,440,429	(1,302,406)
Federal funds	3,644,846	3,954,744	4,683,470	728,726
Charges for services	-	-	161,546	161,546
Investment earnings	7,000	7,031	2,408	(4,623)
Miscellaneous	198,229	198,229	190,020	(8,209)
Total revenues	14,726,838	15,058,515	15,103,498	44,983
EXPENDITURES				
Current:				
Instruction	7,657,854	7,747,157	6,595,583	1,151,574
Support services:				
Pupil services	680,242	703,097	671,500	31,597
Improvement of instructional services	821,998	857,032	702,355	154,677
Educational media services	166,200	166,200	159,905	6,295
General administration	446,495	484,552	379,464	105,088
School administration	1,028,004	1,020,451	965,980	54,471
Business administration	350,800	350,800	312,441	38,359
Maintenance and operation of plant	1,445,701	1,669,236	1,639,530	29,706
Student transportation services	1,195,592	974,631	1,016,372	(41,741)
Central support services	364,500	365,000	357,144	7,856
Other support services	244,424	222,678	197,499	25,179
Food services operations	1,351,998	1,352,824	965,639	387,185
Debt service:				
Principal retirement	-	-	28,186	(28,186)
Interest and fiscal charges	-	-	1,567	(1,567)
Total expenditures	15,753,808	15,913,658	13,993,165	1,920,493
Excess (deficiency) of revenues over (under) expenditures	(1,026,970)	(855,143)	1,110,333	1,965,476
OTHER FINANCING SOURCES (USES)				
Other sources	3,000	3,000	-	(3,000)
Other uses	(2,900,600)	(2,900,600)	-	2,900,600
Transfers in	-	-	133,592	133,592
Total other financing sources (uses)	(2,897,600)	(2,897,600)	133,592	3,031,192
Net change in fund balances	(3,924,570)	(3,752,743)	1,243,925	4,996,668
FUND BALANCE, beginning of year	401,372	401,372	401,372	-
FUND BALANCE (DEFICIT), end of year	$ (3,523,198)	$ (3,351,371)	$ 1,645,297	$ 4,996,668

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

(1) Original and Final Budget amounts do not include budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are $115,760 and $110,831, 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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	16165GA324N1099	$ (1)
National School Lunch Program	10.555	16165GA324N1099	830,855 (2)
Total U.S. Department of Agriculture			830,855
Education, U. S. Department of			
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	84.027	H027A150073	289,369
Preschool Grants	84.173	H173A150081	6,404
Total Special Education Cluster			295,773
Other Programs			
Pass-Through From Georgia Department of Education			
Title I Grants to Local Education Agencies	84.010	S010A150010	703,293
Improving Teacher Quality State Grants	84.367	S367A150001	46,034
Rural Education	84.358	S358B150010	15,853
Twenty-First Century Community Learning Centers	84.287	S287C150010	484,545
Career and Technical Education - Basic Grants to States	84.048	V048A150010	12,947
			1,262,672
Total U. S. Department of Education			1,558,445
Health and Human Services, U. S. Department of			
Direct			
Head Start Cluster			
Head Start	93.600		2,188,491
Total U. S. Department of Health and Human Services			2,188,491
Defense, U. S. Department of			
Direct			
Department of the Air Force			
R.O.T.C. Program	12.unknown		$ 63,716
Total Expenditures of Federal Awards			$ 4,641,507

N/A = Not Available

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Notes to the Schedule of Expenditures of Federal Awards

(1) Expenditures for the funds earned on the School Breakfast Program ($272,672) were not maintained separately and are included in the National School Lunch Program.

(2) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of $35,436.

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

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Hancock County Board of Education (the "Board") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* , wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Board has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SCHEDULE OF STATE REVENUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Agency/Funding	Governmental Fund Type: General Fund
Grants	
Bright from the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 239,150
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	191,457
Kindergarten Program - Early Intervention Program	15,169
Primary Grades (1-3) Program	469,479
Primary Grades - Early Intervention (1-3) Program	96,916
Upper Elementary Grades (4-5) Program	267,526
Upper Elementary Grades - Early Intervention (4-5) Program	58,465
Middle Schools (6-8) Program	448,695
High School General Education (9-12) Program	378,736
Vocational Laboratory (9-12) Program	201,531
Students with Disabilities	719,596
Program for Intellectually Gifted Students - Category VI	61,816
Remedial Education Program	5,982
Alternative Education Program	31,853
Media Center Program	77,674
20 Days Additional Instruction	23,882
Staff and Professional Development	14,289
Indirect Cost	
Central Administration	252,937
School Administration	249,706
Facility Maintenance and Operations	189,316
Vocational Supervisors	6,792
Categorical Grants	
Pupil Transportation	
Pupil Transportation	330,842
Sparsity	130,699
Nursing Services	45,000
Mid-term Adjustment Hold-Harmless	33,829
Principal Staff and Professional Development	623
Food Services	21,214
Vocational Education	3,434
Amended Formula Adjustment	(199,731)
Other State Programs	
Math and Science Supplements	9,395
Preschool Handicapped Program	16,729
Total Grants from Georgia Department of Education	4,393,001
Office of the State Treasurer	
Public School Employees Retirement System	47,428
	$ 4,440,429

SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Project	Original Estimated Cost (1)	Current Estimated Costs (2)	Amount Expended In Current Year (3) (4)	Amount Expended In Prior Years (3) (4)	Total Completion Cost	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	$ 253,818	Complete
Project #2 Debt Service paid on prior Bonds	1,167,100	2,118,789	229,020	1,889,769	2,118,789	Complete
Project #3 Purchase of school buses	800,000	533,764	134,802	398,962	533,764	Complete
Project #4 Purchase of Technology	600,000	299,601	99,847	199,754	299,601	Complete
Other Various Projects	987,900	-	-	-	-	Complete
	$3,750,000	$3,205,972	$ 463,669	$2,742,303	$3,205,972	

(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.

(4) The School District does not have any excess proceeds on hand not yet expended.

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SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

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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 15, 2017

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

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*

INDEPENDENT AUDITOR'S REPORT

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 (School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 15, 2017.

Internal Control Over Financial Reporting

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

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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 2016-001, FS 2016-003 and FS 2016-004 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 2016-002, FS 2016-005, and FS 2016-006 to be significant deficiencies.

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District'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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

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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 15, 2017

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

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Hancock County Board of Education's (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District 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, 2016.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 the Uniform Guidance, 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 School District's internal control over compliance.

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

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

Respectfully submitted,



Greg S. Griffin
State Auditor

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SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 6701-12-01 Inadequate Access Controls – Separation of Duties

Control Category: Accounting Controls (Overall)
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Unresolved

The School District has implemented controls to make sure that employees only have access to the accounting functions that are necessary for the performance of the employee's job duties. This finding is repeated because we don't have enough funds to employ additional help. This finding should be corrected by the end of fiscal year 2018.

FS 6701-12-02 Inadequate Internal Controls Procedures

Control Category; Cash and Cash Equivalents
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Partially Resolved

The School District will make sure that all bank reconciliations are completed and reviewed in a timely manner, and all outstanding checks are documented. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2017.

FS 6701-12-03 Inadequate Internal Controls Over School Activity Accounts

Control Category; Cash and Cash Equivalents
Revenues/Receivables/Receipts
Expenditures/Liabilities/Disbursements
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Unresolved

The School District will make sure that established and approved internal controls are followed and enforced thereby making sure that transactions are processed accurately and in a timely manner. This finding is repeated because we don't have enough funds to employ additional help. This finding should be corrected by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 6701-12-08 Inadequate Accounting Procedures

Control Category; General Ledger
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Further Action Not Warranted

Findings/internal control deficiencies of this nature, that are not deemed significant deficiencies or material weaknesses and do not require reporting in the audit report in accordance with *U.S. Auditing Standards* or *Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

FS 6701-12-09 Failure to Adequately Maintain Capital Assets

Control Category; Capital Assets
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Unresolved

The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review will be conducted to make sure that the capital assets listing is accurate, and to make sure that the list conforms to generally accepted accounting principles. We are updating and inputting the fixed assets into our accounting system so we can correct this finding. This finding should be resolved by the end of fiscal year 2018.

FS 6701-13-01 Inadequate Access Controls – Separation of Duties

Control Category: Accounting Controls (Overall)
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Unresolved

The School District will implement controls to make sure that employees only have access to the accounting functions that are necessary for the performance of the employee's job duties. This finding is repeated because we don't have enough funds to employ additional help. This finding should be corrected by the end of fiscal year fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 6701-13-02 Inadequate Internal Controls Procedures

Control Category; Cash and Cash Equivalents
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Partially Resolved

The School District will make sure that all bank reconciliations are completed and reviewed in a timely manner, and all outstanding checks are documented. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2017.

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: None

Finding Status: Unresolved

The School District will make sure that established and approved internal controls are followed and enforced thereby making sure that transactions are processed accurately and in a timely manner. We have updated our internal control manual and implemented the procedures. This finding will be resolved by the end of fiscal year 2018.

FS 6701-13-07 Inadequate Accounting Procedures

Control Category; General Ledger
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Further Action Not Warranted

Findings/internal control deficiencies of this nature, that are not deemed significant deficiencies or material weaknesses and do not require reporting in the audit report in accordance with *U.S. Auditing Standards* or *Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 6701-13-08 Failure to Adequately Maintain Capital Assets

Control Category; Capital Assets
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Unresolved

The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review will be conducted to make sure that the capital assets listing is accurate, and to make sure that the list conforms to generally accepted accounting principles. We are updating and inputting the fixed assets into our accounting system so we can correct this finding. This finding should be resolved by the end of fiscal year 2018.

FS 2014-001 Inadequate Access Controls – Separation of Duties

Control Category: Accounting Controls (Overall)
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Unresolved

The School District will implement controls to make sure that employees only have access to the accounting functions that are necessary for the performance of the employee's job duties. This finding is repeated because we don't have enough funds to employ additional help. This finding should be corrected by the end of fiscal year fiscal year 2018.

FS 2014-002 Inadequate Internal Controls Procedures

Control Category; Cash and Cash Equivalents
Investments
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Partially Resolved

The School District will make sure that all bank reconciliations are completed and reviewed in a timely manner, and all outstanding checks are documented. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2017.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2014-003 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: None

Finding Status: Unresolved

The School District will make sure that established and approved internal controls are followed and enforced thereby making sure that transactions are processed accurately and in a timely manner. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2018.

FS 2014-007 Inadequate Accounting Procedures

Control Category; General Ledger
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Further Action Not Warranted

Findings/internal control deficiencies of this nature, that are not deemed significant deficiencies or material weaknesses and do not require reporting in the audit report in accordance with *U.S. Auditing Standards or Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

FS 2014-008 Inadequate Internal Controls over Capital Assets

Control Category; Capital Assets
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Unresolved

The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review will be conducted to make sure that the capital assets listing is accurate, and to make sure that the list conforms to generally accepted accounting principles. We are updating and inputting the fixed assets into our accounting system so we can correct this finding. This finding should be resolved by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2015-001 Inadequate Separation of Duties

Control Category: Accounting Controls (Overall)
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Unresolved

The School District will implement controls to make sure that employees only have access to the accounting functions that are necessary for the performance of the employee's job duties. This finding is repeated because we don't have enough funds to employ additional help. This finding should be corrected by the end of fiscal year 2018.

FS 2015-002 Inadequate Internal Control Procedures

Control Category; Cash and Cash Equivalents
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Partially Resolved

The School District will make sure that all bank reconciliations are completed and reviewed in a timely manner. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2017.

FS 2015-003 Inadequate Internal Controls Over School Activity Accounts

Control Category; Cash and Cash Equivalents
Expenditures/Liabilities/Disbursements
Revenues/Receivables/Receipts
Internal Control Impact: Material Weakness
Compliance Impact: None

Finding Status: Unresolved

The School District will make sure that established and approved internal controls are followed and enforced thereby making sure that transactions are processed accurately and in a timely manner. We are training all bookkeepers so that this will not be a repeat finding. This should be completely resolved by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2015-004 Inadequate Accounting Procedures

Control Category; General Ledger
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Further Action Not Warranted

Findings/internal control deficiencies of this nature, that are not deemed significant deficiencies or material weaknesses and do not require reporting in the audit report in accordance with *U.S. Auditing Standards or Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

FS 2015-005 Inadequate Internal Controls over Capital Assets

Control Category; Capital Assets
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Finding Status: Unresolved

The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review will be conducted to make sure that the capital assets listing is accurate, and to make sure that the list conforms to generally accounting principles. We are updating and inputting the fixed assets into our accounting system so we can correct this finding. This finding should be resolved by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA-6701-10-02 Inadequate Internal Control Procedures

Control Category:	Activities Allowed/Unallowed Allowable Costs/Cost Principles Procurement, Suspension and Debarment
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None
Federal Awarding Agency:	U.S. Department of Agriculture
Pass-Through Entity:	Georgia Department of Education
CFDA Number and Title:	Child Nutrition Cluster (CFDA 10.553 and 10.555)
Questioned Cost:	$645.97
Finding Status:	Partially Resolved

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under the Uniform Guidance, approved by the program director and Superintendent or Designee and properly documented. We will contact the Georgia Department of Education and see if a refund is due and clear this finding by the end of fiscal year 2018.

FA-6701-11-03 Inadequate Internal Control Procedures

Control Category:	Activities Allowed/Unallowed Allowable Costs/Cost Principles
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None
Federal Awarding Agency:	U.S. Department of Health and Human Services
CFDA Number and Title:	Head Start Cluster (CFDA 93.600, 93.708 and 93.709)
Questioned Cost:	$1,020.02
Finding Status:	Unresolved

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under the Uniform Guidance, approved by the program director and Superintendent or Designee and properly documented. We are still waiting to hear from Head Start to see whether a refund is due, if we don't hear from them we will return the funds by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA-6701-12-02 Inadequate Internal Control Procedures

Control Category:	Activities Allowed/Unallowed Allowable Costs/Cost Principles
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None
Federal Awarding Agency:	U.S. Department of Agriculture
Pass-Through Entity:	Georgia Department of Education
CFDA Number and Title:	Child Nutrition Cluster (CFDA 10.553 and 10.555)
Questioned Cost:	$2,150.50

Finding Status: Partially Resolved

The School District has implemented internal controls for monitoring compliance with Federal guidelines. The School District has reviewed 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 and the Food Services – National School Lunch Program. We will contact the Georgia Department of Education and see if a refund is due and clear this finding by the end of fiscal year 2018.

FA-6701-12-03 Inadequate Internal Control Procedures

Control Category:	Activities Allowed/Unallowed Allowable Costs/Cost Principles
Internal Control Impact:	Material Weakness
Compliance Impact:	Material Noncompliance
Federal Awarding Agency:	U.S. Department of Health and Human Services
CFDA Number and Title:	Head Start Cluster (CFDA 93.600 and 93.709)
Questioned Cost:	$10,076.73

Finding Status: Unresolved

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under the Uniform Guidance, approved by the program director and Superintendent or Designee and properly documented. We are still waiting to hear from Head Start to see whether a refund is due, if we don't hear from them we will return the funds by the end of fiscal year 2018.

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA-6701-13-01 Inadequate Internal Control Procedures

Control Category:	Activities Allowed/Unallowed Allowable Costs/Cost Principles Period of Availability
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U.S. Department of Health and Human Services
CFDA Number and Title:	Head Start Cluster (CFDA 93.600)
Questioned Cost:	$3,569.58

Finding Status: Partially Resolved

The School District has implemented procedures to ensure that all expenditures charged to Federal programs are allowable under the Uniform Guidance, approved by the program director and Superintendent or Designee and properly documented. We are still waiting to hear from Head Start to see whether a refund is due, if we don't hear from them we will return the funds by the end of fiscal year 2018.

SECTION IV

FINDINGS AND QUESTIONED COSTS

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HANCOCK COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

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 deficiency identified?	None Reported

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 2 CFR 200.516(a)?	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.287	Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2016-001 Separation of Duties
Control Categories: Accounting Controls (Overall)
Internal Control Impact: Material Weakness
Compliance Impact: None
Repeat of Prior Year Finding: FS 2015-001, FS 2014-001, FS-6701-13-01 and FS-6701-12-01

Description:
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.

Questioned Costs:
N/A

Cause:
In discussing this deficiency with the School District, 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 system should complement the system of internal control by limiting an 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:
We concur with this finding.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2016-002 Internal Controls over Cash and Cash Equivalents
Control Categories: Cash and Cash Equivalents
Internal Control Impact: Significant Deficiency
Compliance Impact: None
Repeat of Prior Year Finding: FS 2015-002, FS 2014-002, FS-6701-13-02 and FS-6701-12-02

Description:
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 four random months of bank reconciliations for all bank accounts revealed the following deficiencies:

- Of the twenty bank reconciliations provided, none were dated to indicate when the reconciliations were prepared.
- Of the twenty bank reconciliations provided, eight did not have any indication of approval.
- Supporting documentation included in the reconciliation packets for twelve bank reconciliations provided included time stamps that indicated that reconciliations were performed subsequent to the approval date.
- There were several checks written for two bank accounts that resulted in those bank accounts having a negative ending book balance at June 30, 2016.
- The General Operating account reconciliation contained reconciling items totaling $3,157.43 that have been outstanding for three months or more.
- The School Nutrition account for the month of March 2016 was not properly reconciled to the general ledger.

Questioned Costs:
N/A

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 prepared in a timely manner, are properly approved, all reconciling items are properly addressed in a timely manner, sufficient funds are present prior to checks being written, and accounts are properly reconciled to the general ledger.

Views of Responsible Officials:
We concur with this finding.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2016-003	Internal Controls over School Activity Accounts
Control Categories:	Cash and Cash Equivalents Revenues/Receivables/Receipts Expenditures/Liabilities/Disbursements General Ledger
Internal Control Impact:	Material Weakness
Compliance Impact:	None
Repeat of Prior Year Finding:	FS 2015-003, FS 2014-003, FS-6701-13-03 and FS-6701-12-03

Description:

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 four random months of bank reconciliations for all school bank accounts revealed the following deficiencies:

- Of the twelve bank reconciliations provided, none were dated to indicate when the reconciliations were prepared.
- Of the twelve bank reconciliations provided, four did not have any indication of approval.
- Supporting documentation included in the reconciliation packets for eight bank reconciliations provided included time stamps that indicated that reconciliations were performed subsequent to the approval date.
- There were several checks written for two bank accounts that resulted in those bank accounts having a negative ending book balance at June 30, 2016.
- The Hancock Central Middle School and Hancock Central High School bank account reconciliations contained checks totaling $72.26 and $724.21, respectively, which have been outstanding for three months or more.
- The Hancock Central Middle School and Hancock Central High School bank account reconciliations noted voided checks totaling $6,864.66 and $9,127.82, respectively, for which no documentation was provided to substantiate the checks were voided.

Revenues/Receivables/Receipts

A review of fifty receipts revealed the following deficiencies:

- Twenty five of the forty-eight receipts provided for review were not properly approved.
- Two receipts were not provided for review.
- Seven of the forty-eight receipts provided did not have documentation supporting the account charged.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

- Twenty-three of the forty-eight receipts provided did not have documentation supporting the amount charged.
- Eight of the forty-eight receipts provided did not have documentation to support the time period charged.

Expenditures/Liabilities/Disbursements
A review of sixty-four vouchers revealed the following deficiencies:

- There were six transactions that were not supported by an invoice or any other documentation.
- There were six transactions where the documentation provided did not support the correct time period charged.
- There were seven transactions where the documentation provided did not confirm a reasonable charge.
- There were eleven transactions where the invoice and expenditure recorded on ledger did not agree.
- There was one transaction where no documentation was provided.
- There was one transaction where an employee was paid out of the school activity account rather than through payroll.

General Ledger
There were nine individual agency accounts with a deficit balance at the year end, totaling $39,202.23.

Questioned Costs:
N/A

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 reconciled in a timely manner.

Views of Responsible Officials:
We concur with this finding.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2016-004 Controls over Financial Reporting
Control Categories: Financial Reporting
Internal Control Impact: Material Weakness
Compliance Impact: None
Repeat of Prior Year Finding: None

Description:
The School District did not have adequate internal controls in place over the financial statement reporting process. The original financial statements, as presented for audit, contained a material error.

Criteria:
The School District is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The School District's internal controls over GAAP financial reporting should include adequately training personnel with the knowledge, skills and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* (statement), requires governments to present government-wide and fund financial statements as well as a summary reconciliation of the (a) total governmental funds balances to the net position of governmental activities in the Statement of Net Position, and (b) total change in governmental fund balances to the change in the net position of governmental activities in the Statement of Activities. In addition, the statement requires information about the government's major and nonmajor funds in the aggregate, to be provided in the fund financial statements.

Chapter 22A *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration provides that School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Condition:
A material audit adjustment of $48,376.30 was proposed and accepted by the School District to properly report funds held for others on the fiduciary funds Statement of Net Position.

Cause:
In discussing this issue with management, they indicated that the failure to properly record funds held for others was an error in the processing of a journal entry that was not detected.

Effect or Potential Effect:
A material misstatement was included in the fiduciary fund financial statements presented for audit. The lack of controls and monitoring resulted in this material misstatement.

Recommendation:
The School District's management should strengthen controls over the financial statement reporting process to ensure the completeness and accuracy of all activity recorded in the financial statement information presented for audit.

Views of Responsible Officials:
We concur with this finding.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2016-005 Internal Controls over Capital Assets
Control Categories: Capital Assets
Internal Control Impact: Significant Deficiency
Compliance Impact: None
Repeat of Prior Year Finding: FS 2015-005, FS 2014-008, FS-6701-13-08 and FS-6701-12-09

Description:
The School District did not adequately maintain the capital assets records.

Criteria:
Chapter 37 *Implementing a Capital Asset 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, failed to provide elements of information as required such as asset identifiers and location identifiers.
- 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 No. 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.
- Documentation of a physical inventory of capital assets was not provided.
- A physical review of twenty-one capital assets revealed the following deficiencies:
    - Seven items did not have the correct identifying information.
    - Seven items were not in the correct location.
    - Seven items did not appear to be in use.
    - Six items on the asset list were not located.

Questioned Cost:
N/A

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.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

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:

We concur with this finding.

FS 2016-006	Budget Deficit, Deficit Fund Balance
Control Category:	Budget Preparation/Execution
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Non-Material Noncompliance

Description:

At June 30, 2016, the School Food Service Fund reported a deficit fund balance. In addition, the School District did not adopt a balanced general fund budget for fiscal year 2016.

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 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 short fall. 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 Georgia 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 Georgia 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 School Food Service Fund reported a deficit balance of $88,954. In addition, the School District's original and final budget for the general fund was not balanced. Total anticipated revenues and beginning fund balance did not exceed or equal total estimated expenditures.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Cause:

In discussing these issues with management, they stated that the School Food Service Fund incurred expenditures in excess of revenues during the year under review. In addition, they did not use effective budgeting techniques to ensure the budget is properly balanced, therefore budgeting expenditures and other uses in excess of anticipated revenues.

Effect or Potential Effect:

The fund balance of the School Food Service Fund was not sufficient to meet the fund's obligations at June 30, 2016. Ineffective budgeting techniques in the final budget resulted in a budget deficit of $3,351,371 and noncompliance with Chapter 32 of the Financial Management for Georgia Local Units of Administration. This resulted in a financial statement irregularity in accordance with the Official Code of Georgia Annotated (O.C.G.A) §20-2-67.

Recommendation:

The School District should establish policies and procedures to enforce the successful implementation of their deficit reduction plan 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:

We concur with this finding.

II FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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SECTION V

MANAGEMENT'S CORRECTIVE ACTION

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HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SCHEDULE OF MANAGEMENT'S CORRECTIVE ACTION
YEAR ENDED JUNE 30, 2016

CORRECTIVE ACTION PLANS - FINANCIAL STATEMENT FINDINGS

FS 2016-001	Separation of Duties
Control Categories:	Accounting Controls (Overall)
Internal Control Impact:	Material Weakness
Compliance Impact:	None
Repeat of Prior Year Finding:	FS 2015-001, FS 2014-001, FS-6701-13-01 and FS-6701-12-01

The policies and procedures of the School District were insufficient to provide adequate controls over logical access to the School District's financial system.

Corrective Action Plans:
The School District will implement controls to make sure that employees only have access to the accounting functions that are necessary for the performance of the employee's job duties. This finding is repeated because we don't have enough funds to employee additional help.

Estimated Completion Date: June 30, 2018

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

FS 2016-002	Internal Control Procedures
Control Categories:	Cash and Cash Equivalents
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None
Repeat of Prior Year Finding:	FS 2015-002, FS 2014-002, FS-6701-13-02 and FS-6701-12-02

The accounting procedures of the School District were insufficient to provide adequate internal control procedures over the Cash and Cash Equivalents function.

Corrective Action Plans:
The School District will make sure that all bank reconciliations are completed and reviewed in a timely manner. We are training all bookkeepers so that this will not be a repeat finding.

Estimated Completion Date: June 30, 2017

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SCHEDULE OF MANAGEMENT'S CORRECTIVE ACTION
YEAR ENDED JUNE 30, 2016

CORRECTIVE ACTION PLANS - FINANCIAL STATEMENT FINDINGS

FS 2016-003	Internal Controls Over School Activity Accounts
Control Categories:	Cash and Cash Equivalents Revenues/Receivables/Receipts Expenditures/Liabilities/Disbursements General Ledger
Internal Control Impact:	Material Weakness
Compliance Impact:	None
Repeat of Prior Year Finding:	FS 2015-003, FS 2014-003, FS-6701-13-03 and FS-6701-12-03

The accounting procedures of the School District were insufficient to provide adequate internal controls over school activity accounts.

Corrective Action Plans:
The School District will make sure that established and approved internal controls are followed and enforced thereby making sure that transactions are processed accurately and in a timely manner. We are training all bookkeepers so that this will not be a repeat finding.

Estimated Completion Date: June 30, 2017

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

FS 2016-004	Controls over Financial Reporting
Control Categories:	Financial Reporting
Internal Control Impact:	Material Weakness
Compliance Impact:	None
Repeat of Prior Year Finding:	None

The School District did not have adequate internal controls in place over the financial statement reporting process. The original financial statements, as presented for audit, contained a material error.

Corrective Action Plans:
The School District will implement controls to monitor journal entries and verify that all information included in the financial statements is accurate. All balances in funds held for others will be reviewed and adjustments will be made as necessary.

Estimated Completion Date: June 30, 2017

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

HANCOCK COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SCHEDULE OF MANAGEMENT'S CORRECTIVE ACTION
YEAR ENDED JUNE 30, 2016

CORRECTIVE ACTION PLANS - FINANCIAL STATEMENT FINDINGS

FS 2016-005	Internal Controls over Capital Assets
Control Categories:	Capital Assets
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None
Repeat of Prior Year Finding:	FS 2015-005, FS 2014-008, FS-6701-13-08 and FS-6701-12-09

The School District failed to adequately maintain the capital assets records.

Corrective Action Plans:
The School District will reassess internal control procedures related to capital assets to ensure that they are in place and operating effectively. An administrative review will be conducted to make sure that the capital assets listing is accurate, and to make sure that the list conforms to generally accounting principles. We are updating and inputting the fixed assets into our accounting system so we can correct this finding.

Estimated Completion Date: June 30, 2018

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

FS 2016-006	Budget Deficit, Deficit Fund Balance
Control Category:	Budget Preparation/Execution
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Non-Material Noncompliance
Repeat of Prior Year Finding:	N/A

The School District reported a deficit fund balance in the School Food Service Fund. In addition, the School District did not adopt a balanced general fund budget for fiscal year 2016.

Corrective Action Plans:
The School District will establish policies and procedures to enforce the successful implementation of our deficit reduction plan to ensure that expenditures do not exceed availability of resources, so that in future periods a deficit fund balance does not occur. Appropriate procedures will be implemented to ensure that the adopted budget for each budgeted fund is balanced as required.

Estimated Completion Date: June 30, 2017

Contact Person: Matthias Jones
Telephone: (706) 444-5775
E-mail: mjones@hancock.k12.ga.us

CORRECTIVE ACTION PLANS – FEDERAL AWARD FINDINGS

No matters were reported.