

HARDIN COUNTY BOARD OF EDUCATION

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

Year Ended June 30, 2006

HARDIN COUNTY BOARD OF EDUCATION

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2006

	<u>Page</u>
Independent Auditor's Report	1-2
Required Supplementary Information:	
Management's Discussion and Analysis	3-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	19
Statement of Cash Flows – Proprietary Funds	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	22
Notes to the Basic Financial Statements	23-37
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	38
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	39

HARDIN COUNTY BOARD OF EDUCATION

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2006

Supplementary Information:

Combining Statements – Nonmajor Funds:

Combining Balance Sheet – Nonmajor Governmental Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	41
Combining Statement of Net Assets – Nonmajor Proprietary Funds – Enterprise Funds	42
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds – Proprietary Funds	43
Combining Statement of Cash Flows – Nonmajor Enterprise Funds – Proprietary Funds	44
Combining Statement of Fiduciary Net Assets – Agency Funds	45

High Schools:

Statement of Receipts, Disbursements, and Fund Balances – Central Hardin High School	46-47
Statement of Receipts, Disbursements, and Fund Balances – John Hardin High School.....	48-49
Statement of Receipts, Disbursements, and Fund Balances – North Hardin High School.....	50-51

Schedule of Expenditures of Federal Awards	52-53
---	--------------

Notes to the Schedule of Expenditures of Federal Awards	54
--	-----------

Schedule of Findings and Questioned Costs	55-56
--	--------------

Schedule of Prior Year Audit Findings.....	57
---	-----------

Independent Auditor's Report on Internal Control Over Financial Reporting And On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>.....	59-59
---	--------------

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	60-61
---	--------------

Management Letter Comments.....	62-69
--	--------------

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



America Counts on CPAs

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hardin County Board of Education as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 18, 2006, on our consideration of Hardin County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 11, and the Budgetary Comparison Information on pages 38 through 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hardin County Board of Education's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 52 through 53 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
August 18, 2006

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY BOARD OF EDUCATION - ELIZABETHTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Hardin County Board of Education's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- 1 The beginning General Fund fund balance for the District was \$13.5 million. The ending General Fund balance was \$11.8 million. Revenues increased \$8.1 million and expenditures increased \$9.2 million compared to the previous fiscal year. Also, the General fund was responsible for paying \$390 thousand in energy bond debt service. In addition, the General Fund transferred \$202 thousand to the Special Revenue Fund for the technology grant match and transferred \$338 thousand to the Construction Fund to use in construction projects.
- 2 The beginning Construction Fund fund balance for the District was \$7.7 million. The ending Construction Fund balance was \$15.2 million. The major reason for the increase in the fund balance was due to unspent bond proceeds recorded related to the construction of a new Rineyville Elementary School.

USING THIS ANNUAL REPORT

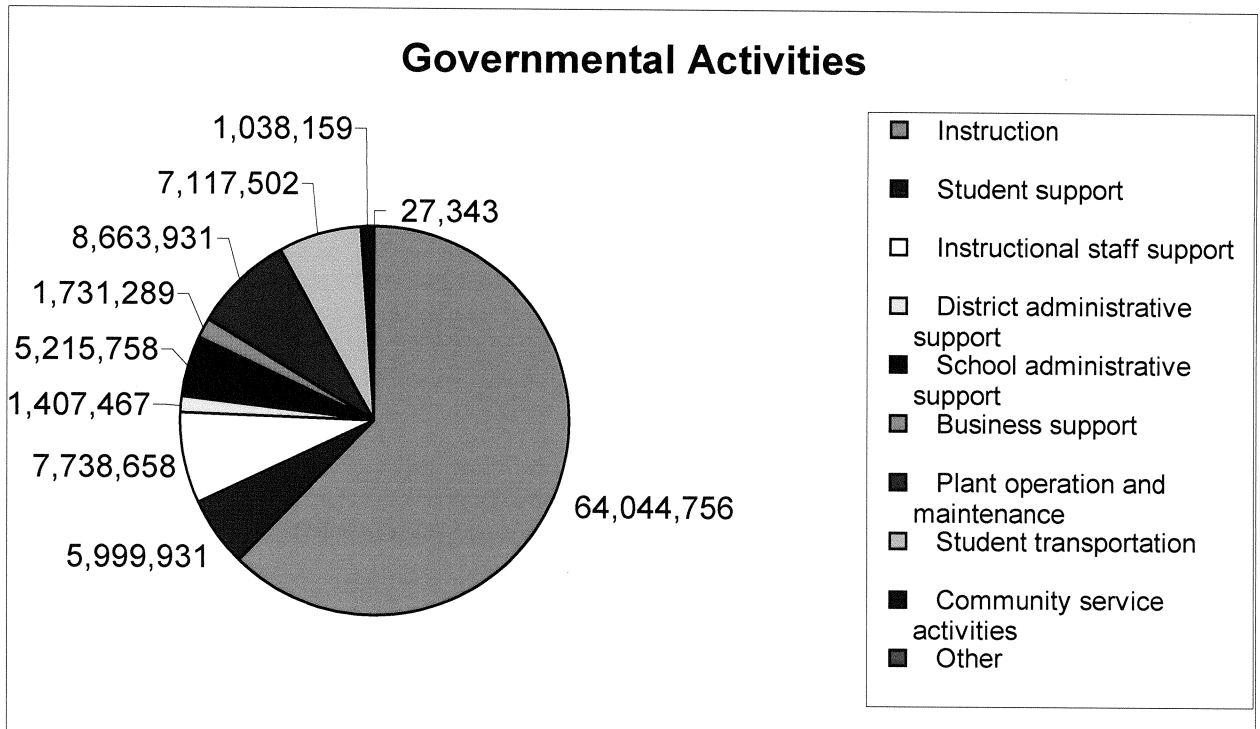
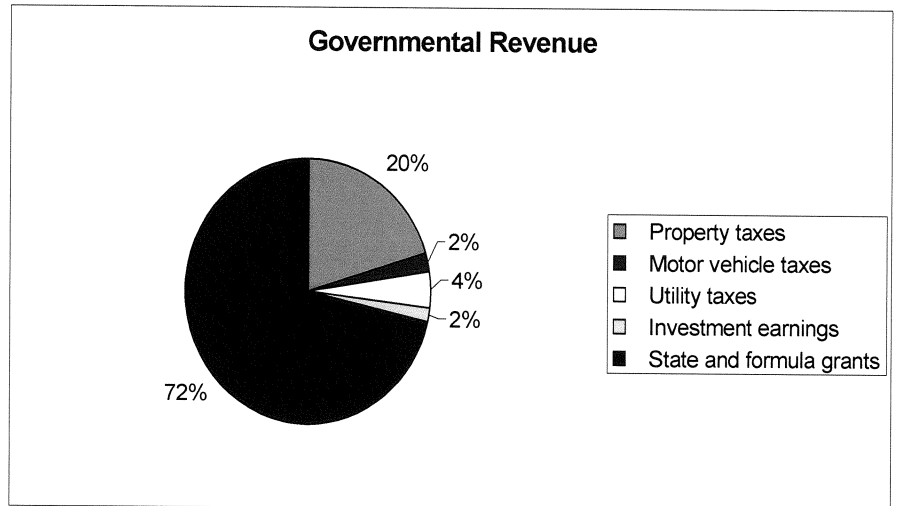
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This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

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

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

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

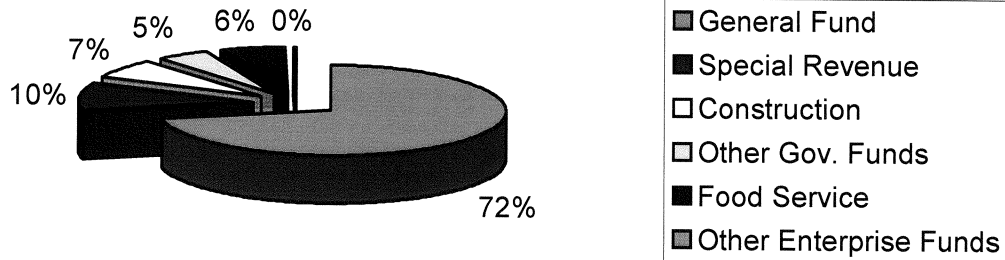
The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant,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



The government-wide financial statements can be found on pages 12 - 13 of this report.

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

Fund Expenditures



The basic governmental fund financial statements can be found on pages 14 - 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 37 of this report.

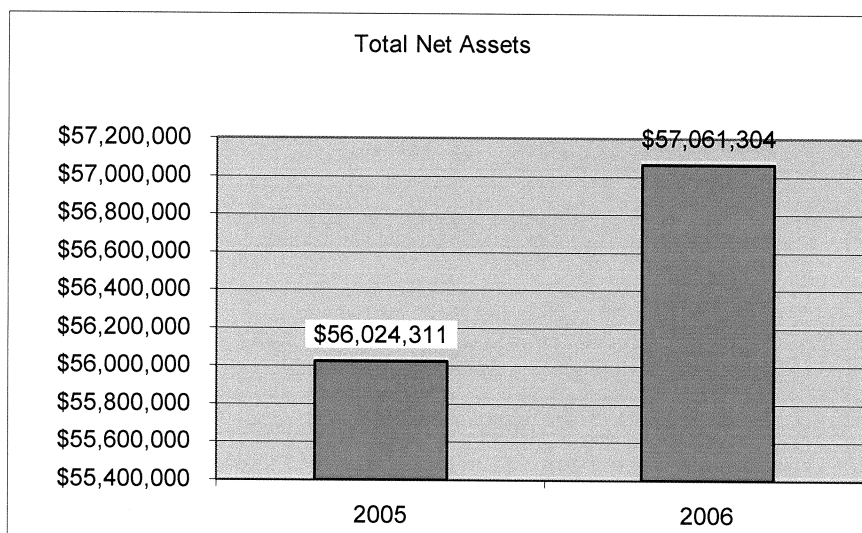
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as an indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$57.1 million as of June 30, 2006. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not be used to liquidate these liabilities.

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

Net Assets for the period ending June 30, 2006 and 2005
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 31,370,213	\$ 27,308,358	\$ 890,871	\$ 878,408	\$ 32,261,084	\$ 28,186,766
Capital Assets	<u>107,802,208</u>	<u>100,807,923</u>	<u>845,221</u>	<u>788,927</u>	<u>108,647,429</u>	<u>101,596,850</u>
Total Assets	<u>139,172,421</u>	<u>128,116,281</u>	<u>1,736,092</u>	<u>1,667,335</u>	<u>140,908,513</u>	<u>129,783,616</u>
Long-term Debt	75,408,682	65,323,084	-	-	75,408,682	65,323,084
Other Liabilities	<u>8,096,186</u>	<u>8,316,188</u>	<u>342,341</u>	<u>120,033</u>	<u>8,438,527</u>	<u>8,436,221</u>
Total Liabilities	<u>83,504,868</u>	<u>73,639,272</u>	<u>342,341</u>	<u>120,033</u>	<u>83,847,209</u>	<u>73,759,305</u>
Net Assets						
Investment in capital assets (net of debt)	31,952,803	35,150,694	845,221	788,927	32,798,024	35,939,621
Restricted	<u>16,829,477</u>	<u>10,088,670</u>	-	-	<u>16,829,477</u>	<u>10,088,670</u>
Unrestricted	<u>6,885,273</u>	<u>9,237,645</u>	<u>548,530</u>	<u>758,375</u>	<u>7,433,803</u>	<u>9,996,020</u>
Total Net Assets	<u>\$ 55,667,553</u>	<u>\$ 54,477,009</u>	<u>\$ 1,393,751</u>	<u>\$ 1,547,302</u>	<u>\$ 57,061,304</u>	<u>\$ 56,024,311</u>

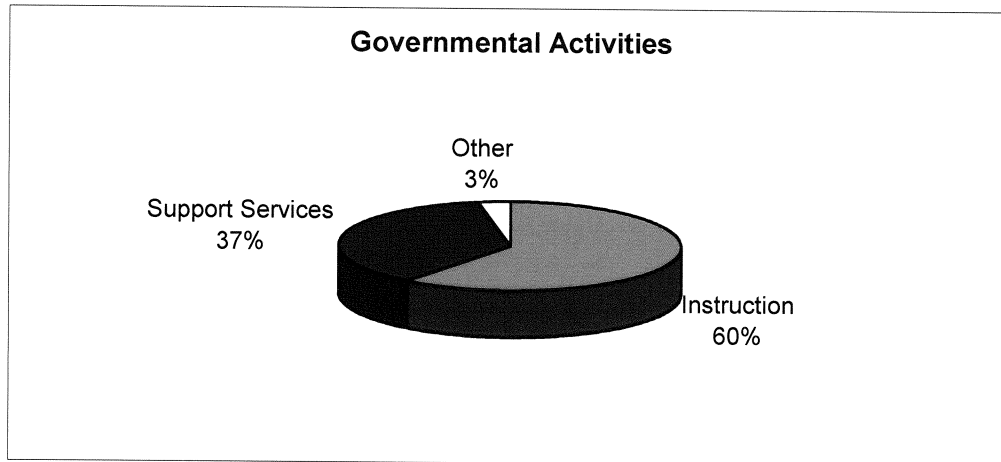


The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues						
Charges for services	\$ 121,973	\$ 86,167	\$ 2,976,552	\$ 2,976,904	\$ 3,098,525	\$ 3,063,071
Operating grants and contributions	15,804,041	14,410,303	4,530,733	3,252,102	20,334,774	17,662,405
Capital grants and contributions	2,263,636	2,168,782	-	-	2,263,636	2,168,782
General revenues						
Property taxes	17,883,223	16,210,560	-	-	17,883,223	16,210,560
Motor vehicle taxes	2,208,221	2,094,548	-	-	2,208,221	2,094,548
Utility taxes	3,874,145	3,687,314	-	-	3,874,145	3,687,314
Other taxes	3,002	2,852	-	-	3,002	2,852
Investment earnings	1,435,211	828,674	11,457	10,689	1,446,668	839,363
State and formula grants	63,359,669	58,159,865	-	-	63,359,669	58,159,865
Gain (loss) on asset disposal	(60,472)	54,920	(758)	(530)	(61,230)	54,390
Miscellaneous	565,480	576,688	-	-	565,480	576,688
Total revenues	107,458,129	98,280,673	7,517,984	6,239,165	114,976,113	104,519,838
EXPENSES						
Program Activities						
Instruction	64,044,756	59,323,777	-	-	64,044,756	59,323,777
Student support	5,999,931	5,605,345	-	-	5,999,931	5,605,345
Instructional staff support	7,738,658	6,809,869	-	-	7,738,658	6,809,869
District administrative support	1,407,467	152,897	-	-	1,407,467	152,897
School administrative support	5,215,758	4,592,788	-	-	5,215,758	4,592,788
Business support	1,731,289	1,552,608	-	-	1,731,289	1,552,608
Plant operation and maintenance	8,663,931	7,766,852	-	-	8,663,931	7,766,852
Student transportation	7,117,502	5,822,442	-	-	7,117,502	5,822,442
Community service activities	1,038,159	969,121	-	-	1,038,159	969,121
Other	27,343	85,900	-	-	27,343	85,900
Interest costs	3,112,980	2,811,411	-	-	3,112,980	2,811,411
Business-type Activities						
Food service	-	-	7,349,524	6,066,875	7,349,524	6,066,875
Childcare	-	-	436,753	291,463	436,753	291,463
Educational television	-	-	55,069	45,296	55,069	45,296
Total expenses	106,097,774	95,493,010	7,841,346	6,403,634	113,939,120	101,896,644
Transfers	(169,811)	-	169,811	-	-	-
Increase (decrease) in net assets	\$ 1,190,544	\$ 2,787,663	\$ (153,551)	\$ (164,469)	\$ 1,036,993	\$ 2,623,194

Governmental Activities

Instruction comprises 60% of governmental program expenses. Support services expenses make up 37% of government expenses. The remaining expense for interest and other items accounts for the remaining 3% of total government expense.



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

	Governmental Activities Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Instruction	\$ 64,044,756	\$ 59,323,777	\$ 51,371,225	\$ 47,517,974
Support Services	38,912,695	33,290,602	35,575,212	30,599,935
Other	27,343	85,900	27,343	85,900
Interest costs	<u>3,112,980</u>	<u>2,811,411</u>	<u>934,344</u>	<u>642,629</u>
Total expenses	<u><u>\$ 106,097,774</u></u>	<u><u>\$ 95,511,690</u></u>	<u><u>\$ 87,908,124</u></u>	<u><u>\$ 78,846,438</u></u>

Business-Type Activities

The business-type activities include the food service, child care and educational television operations. These programs had total revenues of \$7,517,984 and expenses of \$7,841,346 for fiscal year 2006. Of the revenues, \$2,976,552 was charges for services, \$4,530,733 was from State and Federal grants, \$11,457 was from investment earnings and (\$758) was a loss on disposal of assets. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will make adjustments to the operations of this activity.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$128,329,027 and expenditures and other financing uses of \$123,072,857. Net changes in fund balances for the year were most significant in the General Fund (\$1,733,730) and the Construction Fund \$7,526,688.

The decrease in the General Fund was primarily due to debt service payments on energy bonds, transfers to the Special Revenue Fund and Construction Fund, increasing fuel costs and the addition of 220 employees from the previous year. The increase in the Construction Fund was due primarily to unspent bond proceeds for the construction of a new Rineyville Elementary School.

General Fund-Budget Highlights

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

For the General Fund revenues were budgeted at \$68,999,581 with actual amounts of \$87,504,205. Budgeted expenditures of \$80,864,164 compare with actual expenditures of \$88,329,491. The most significant fluctuation is for on-behalf payments of \$14,859,795. If on-behalf payments were not included in revenues, revenues would be \$72,644,410, which is \$3,644,829 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$73,469,696, which is \$7,394,468 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006 the School District had \$108,647,429 invested in land, land improvements, buildings, vehicles, equipment, and construction in progress, and \$107,802,208 in governmental activities. Table 4 shows fiscal year 2006 and 2005 balances.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,747,903	\$ 1,997,403	\$ 16,790	\$ 16,790	\$ 2,764,693	\$ 2,014,193
Land improvements	2,647,177	2,891,032	-	-	2,647,177	2,891,032
Buildings and improvements	93,998,250	78,557,616	64,394	70,765	94,062,644	78,628,381
Technology	1,543,379	1,664,255	5,212	13,309	1,548,591	1,677,564
Vehicles	3,546,664	3,342,868	-	2,640	3,546,664	3,345,508
General equipment	1,516,955	1,175,668	758,825	685,423	2,275,780	1,861,091
Total	106,000,328	89,628,842	845,221	788,927	106,845,549	90,417,769
Construction in progress	1,801,880	11,179,081	-	-	1,801,880	11,179,081
Total	<u>\$ 107,802,208</u>	<u>\$ 100,807,923</u>	<u>\$ 845,221</u>	<u>\$ 788,927</u>	<u>\$ 108,647,429</u>	<u>\$ 101,596,850</u>

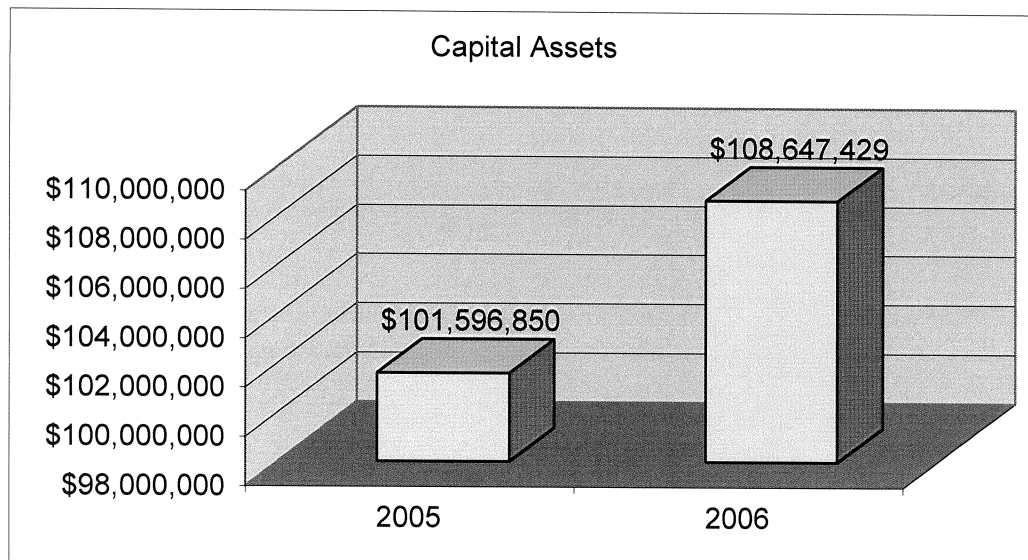


Table 5 shows the changes in capital assets for the fiscal years ended June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Beginning balance	\$ 100,807,923	\$ 91,123,073	\$ 788,927	\$ 804,942	\$ 101,596,850	\$ 91,928,015
Additions	22,175,685	27,070,732	200,408	133,514	22,376,093	27,204,246
Retirements	(10,727,389)	(13,314,255)	(758)	(530)	(10,728,147)	(13,314,785)
Depreciation	(4,454,011)	(4,071,627)	(143,356)	(148,999)	(4,597,367)	(4,220,626)
Ending balance	<u>\$ 107,802,208</u>	<u>\$ 100,807,923</u>	<u>\$ 845,221</u>	<u>\$ 788,927</u>	<u>\$ 108,647,429</u>	<u>\$ 101,596,850</u>

Construction was completed on Creekside Elementary School and a renovation project of Rineyville Elementary School began. Also, a project to improve future energy costs was completed. The Rineyville Elementary School renovation project costs are in construction in progress at June 30, 2006.

Debt

At June 30, 2006, the School District had \$78,450,000 in bonds outstanding, of this amount \$14,475,551 is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$4,290,000 is due within one year. The District issued \$14,155,000 of revenue bonds in June 2006 to finance the construction of a new Rineyville Elementary School.

District Challenges for the Future

The primary challenges for Hardin County Schools are to continue to increase the level of achievement of our students, continue to maintain and improve the average daily attendance of our students, and continue to provide modern facilities for continuous growth in student enrollment.

The most important challenge is to increase the academic achievement of our students. The District has increased the funding in several areas to move toward this goal. The District has added to the funding support Thoughtful Education that is a three-year initiative. The District has implemented programs to control energy costs and is saving approximately \$500 thousand per year and has also streamlined telephone services to reduce costs. By making the district operations more efficient, money saved can be used to improve student achievement.

The second District challenge mentioned is maintaining and improving the average daily attendance. The District receives funding through the SEEK formula based on this count. Growth within the district has increased. As a result of continued growth in average daily attendance the District has been able to levy the growth nickel. This additional revenue will greatly enhance the bonding capacity for the District to construct additional classroom space to meet the needs of additional students. While attendance is critical to the funding of the District, it is more important to note that good attendance has a direct relationship to student achievement. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

We made an important step this year to purchase land for future construction projects. We hope to begin a new construction project on Ring Road in Spring of 2007. The District must make provisions for current enrollment growth and the anticipated growth in student population due to the impact of BRAC.

Adhering to the facilities plan is essential in providing excellent learning environments to meet the needs of all our students.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2006 - 2007 with a 2.26% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions about this report or additional information needed should be directed to Gary Milby, Associate Superintendent for Finance and Support (270) 769-8800, 65 W. A. Jenkins Road, Elizabethtown, Kentucky, 42701 or e-mail gary.milby@hardin.kyschools.us.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

June 30, 2006

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 29,356,932	\$ 125,115	\$ 29,482,047
Inventory		325,752	325,752
Accounts receivable:			
Taxes-current	453,680		453,680
Taxes-delinquent	4,815		4,815
Accounts receivable	35,520	13,186	48,706
Intergovernmental-State	213,557		213,557
Intergovernmental-Indirect Federal	1,003,879	426,818	1,430,697
Intergovernmental-Direct Federal	16,102		16,102
Due from other funds	285,728		285,728
Total Current Assets	31,370,213	890,871	32,261,084
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	107,802,208	845,221	108,647,429
Total Noncurrent Assets	107,802,208	845,221	108,647,429
Total Assets	139,172,421	1,736,092	140,908,513
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	1,615,334	56,613	1,671,947
Accrued liabilities	217,876		217,876
Due to other funds		285,728	285,728
Deferred revenue	470,910		470,910
Current portion of bond obligations	4,290,000		4,290,000
Current portion of accrued sick leave	427,697		427,697
Interest payable	1,074,369		1,074,369
Total Current Liabilities	8,096,186	342,341	8,438,527
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	74,160,000		74,160,000
Less: Deferred amount on refunding	(1,538,412)		(1,538,412)
Less: Bond discount and expense	(1,062,183)		(1,062,183)
Noncurrent portion of accrued sick leave	3,849,277		3,849,277
Total Noncurrent Liabilities	75,408,682	-	75,408,682
Total Liabilities	83,504,868	342,341	83,847,209
<u>Net Assets</u>			
Invested in capital assets, net of related debt	31,952,803	845,221	32,798,024
Restricted for:			
Capital projects	15,214,449		15,214,449
Debt service	1,615,028		1,615,028
Unrestricted	6,885,273	548,530	7,433,803
Total Net Assets	\$ 55,667,553	\$ 1,393,751	\$ 57,061,304

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

FUNCTIONS/PROGRAMS
Governmental Activities:

	\$ 64,044,756	\$ 101,315	\$ 12,487,216	\$ 85,000	\$ (51,371,225)	\$ -	\$ (51,371,225)
Instruction							
Support services:							
Student	5,999,931		46,370		(5,953,561)		(5,953,561)
Instruction staff	7,738,658		1,882,796		(5,855,862)		(5,855,862)
District administrative	1,407,467				(1,407,467)		(1,407,467)
School administrative	5,215,758		71,054		(5,144,704)		(5,144,704)
Business	1,731,289				(1,731,289)		(1,731,289)
Plant operation and maintenance	8,663,931		12,199		(8,651,732)		(8,651,732)
Student transportation	7,117,502	20,658	305,388		(6,791,456)		(6,791,456)
Community service activities	1,038,159		999,018		(39,141)		(39,141)
Other	27,343				(27,343)		(27,343)
Interest on long-term debt	3,112,980			2,178,636	(934,344)		(934,344)
Total Governmental Activities	106,097,774	121,973	15,804,041	2,263,636	(87,908,124)	-	(87,908,124)
Business-Type Activities:							
Food service	7,349,524	2,574,106	4,455,603			(319,815)	(319,815)
Child care	436,753	343,367	68,586			(24,800)	(24,800)
Educational television	55,069	59,079	6,544			10,554	10,554
Total Business-Type Activities	7,841,346	2,976,552	4,530,733	-	-	(334,061)	(334,061)
Total Primary Government	\$113,939,120	\$ 3,098,525	\$ 20,334,774	\$ 2,263,636	(87,908,124)	(334,061)	(88,242,185)

General Revenues:

Taxes:							
Property taxes	17,883,223				17,883,223		17,883,223
Motor vehicle taxes	2,208,221				2,208,221		2,208,221
Utility taxes	3,874,145				3,874,145		3,874,145
Other taxes	3,002				3,002		3,002
Investment earnings	1,435,211				1,435,211	11,457	1,446,668
State and formula grants	63,359,669				63,359,669		63,359,669
Gain (loss) on sales of fixed assets	(60,472)				(60,472)	(758)	(61,230)
Miscellaneous	565,480				565,480		565,480
Total general revenues	89,268,479				89,268,479	10,699	89,279,178
Transfers	(169,811)				(169,811)	169,811	-
Change in net assets	1,190,544				1,190,544	(153,551)	1,036,993
Net assets - beginning	54,477,009				54,477,009	1,547,302	56,024,311
Net assets - ending	\$ 55,667,553				\$ 55,667,553	\$ 1,393,751	\$ 57,061,304

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2006

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 11,741,627	\$ -	\$ 15,752,688	\$ 1,862,617	\$ 29,899,453
Due from other funds	542,521				542,521
Accounts receivable:					
Taxes - current	453,680				453,680
Taxes - delinquent	4,815				4,815
Accounts receivable	21,235	14,285			35,520
Intergovernmental - State		213,557			213,557
Intergovernmental - Indirect Federal		1,003,879			1,003,879
Intergovernmental - Direct Federal		16,102			16,102
Total Assets and Resources	<u>\$ 12,763,878</u>	<u>\$ 1,247,823</u>	<u>\$ 15,752,688</u>	<u>\$ 1,862,617</u>	<u>\$ 31,627,006</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 752,125	\$ 324,970	\$ 538,239	\$ -	\$ 1,615,334
Accrued liabilities	217,876				217,876
Due to other funds		256,793			256,793
Deferred revenue		470,910			470,910
Total Liabilities	970,001	1,052,673	538,239	-	2,560,913
Fund Balances					
Reserved for:					
Encumbrances	365,969	195,150			561,119
Debt service				1,615,028	1,615,028
Construction			15,214,449		15,214,449
Sick leave	950,000				950,000
Unreserved:					
Undesignated, reported in:					
General fund	10,477,908				10,477,908
Capital projects funds				247,589	247,589
Total Fund Balances	<u>11,793,877</u>	<u>195,150</u>	<u>15,214,449</u>	<u>1,862,617</u>	<u>29,066,093</u>
Total Liabilities and Fund Balances	<u>\$ 12,763,878</u>	<u>\$ 1,247,823</u>	<u>\$ 15,752,688</u>	<u>\$ 1,862,617</u>	<u>\$ 31,627,006</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

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

June 30, 2006

Total fund balance per fund financial statements	\$ 29,066,093
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	107,802,208
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(81,200,748)</u>
Net assets for governmental activities	<u><u>\$ 55,667,553</u></u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 15,710,904	\$ -	\$ -	\$ 2,172,319	\$ 17,883,223
Motor vehicle	2,208,221				2,208,221
Utilities	3,874,145				3,874,145
Other taxes	3,002				3,002
Earnings on investments	1,148,768	11,460	128,433	146,550	1,435,211
Other local revenues	664,822	128,242			793,064
Intergovernmental - State	63,359,669	4,927,374		4,897,877	73,184,920
Intergovernmental - Indirect Federal	177,362	7,517,801			7,695,163
Intergovernmental - Direct Federal	357,312	181,556			538,868
Total Revenues	87,504,205	12,766,433	128,433	7,216,746	107,615,817
Expenditures:					
Instruction	51,926,666	9,650,213			61,576,879
Support services:					
Student	5,953,561	46,370			5,999,931
Instruction staff	5,855,862	1,882,796			7,738,658
District administrative	1,047,381				1,047,381
School administrative	5,098,732	71,054			5,169,786
Business	1,717,821				1,717,821
Plant operation and maintenance	9,619,646	12,199			9,631,845
Student transportation	6,985,200	305,388			7,290,588
Facilities acquisition and construction			8,458,956		8,458,956
Community service activities	39,142	999,018			1,038,160
Other	85,480			6,230	91,710
Bond issue costs			80,580		80,580
Debt service:					
Principal				3,930,000	3,930,000
Interest				2,346,114	2,346,114
Total Expenditures	88,329,491	12,967,038	8,539,536	6,282,344	116,118,409
Excess (Deficit) of Revenues over Expenditures	(825,286)	(200,605)	(8,411,103)	934,402	(8,502,592)
Other Financing Sources (Uses):					
Proceeds from sale of bonds			14,145,000		14,145,000
Bond discount			(238,708)		(238,708)
Proceeds from sale of fixed assets	22,281				22,281
Transfers in		202,109	2,201,310	4,142,510	6,545,929
Transfers out	(930,725)		(169,811)	(5,615,204)	(6,715,740)
Total Other Financing Sources (Uses)	(908,444)	202,109	15,937,791	(1,472,694)	13,758,762
Net Change in Fund Balances	(1,733,730)	1,504	7,526,688	(538,292)	5,256,170
Fund Balance, July 1, 2005	13,527,607	193,646	7,687,761	2,400,909	23,809,923
Fund Balance, June 30, 2006	\$ 11,793,877	\$ 195,150	\$ 15,214,449	\$ 1,862,617	\$ 29,066,093

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

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

Year Ended June 30, 2006

Net change in total fund balances per fund financial statements	\$ 5,256,170
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	7,077,036
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(13,825,712)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	3,930,000
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(82,753)
Generally, revenues recognized in this fund financial statement are limited to only those that are measurable and available, but revenues are recognized in the statement of activities when they are earned.	(97,216)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(1,066,981)</u>
Change in net assets of governmental activities	<u>\$ 1,190,544</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2006

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 38,959	\$ 86,156	\$ 125,115
Inventory	325,752		325,752
Accounts receivable	13,186		13,186
Intergovernmental receivable - Indirect Federal	426,818		426,818
Total Current Assets	804,715	86,156	890,871
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	845,221		845,221
Total Noncurrent Assets	845,221	-	845,221
Total Assets	1,649,936	86,156	1,736,092
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	47,213	9,400	56,613
Due to other funds	285,728		285,728
Total Current Liabilities	332,941	9,400	342,341
<u>Net Assets</u>			
Invested in capital assets, net of related debt	845,221		845,221
Unrestricted	471,774	76,756	548,530
Total Net Assets	\$ 1,316,995	\$ 76,756	\$ 1,393,751

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2006

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 2,574,106	\$ -	\$ 2,574,106
Tuition and fees		402,446	402,446
Total Operating Revenues	2,574,106	402,446	2,976,552
Operating Expenses			
Salaries and wages	3,514,513	422,866	3,937,379
Materials and supplies	3,567,899	27,819	3,595,718
Depreciation	143,356		143,356
Other operating expenses	123,756	41,137	164,893
Total Operating Expenses	7,349,524	491,822	7,841,346
Operating (loss)	(4,775,418)	(89,376)	(4,864,794)
Non-Operating Revenues (Expenses)			
Federal grants	3,434,232		3,434,232
Donated commodities	319,336		319,336
State grants	87,830		87,830
State on-behalf payments	614,205	75,130	689,335
Interest income	11,457		11,457
Loss on disposal of fixed assets	(758)		(758)
Total Non-Operating Revenues (Expenses) Before Transfers	4,466,302	75,130	4,541,432
Transfers in	169,811		169,811
Changes in net assets	(139,305)	(14,246)	(153,551)
Net Assets, July 1, 2005	1,456,300	91,002	1,547,302
Net Assets, June 30, 2006	\$ 1,316,995	\$ 76,756	\$ 1,393,751

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2006

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 2,566,241	\$ -	\$ 2,566,241
Tuition and fees		402,446	402,446
Cash paid to/for:			
Employees	(3,522,307)	(347,736)	(3,870,043)
Supplies	(2,245,860)	(24,518)	(2,270,378)
Other activities	(123,756)	(41,137)	(164,893)
Net Cash Used by Operating Activities	(3,325,682)	(10,945)	(3,336,627)
Cash flows from Non-Capital and Related Financing Activities			
Federal grants	3,381,995		3,381,995
State grants	87,830		87,830
Net Cash Provided by Non-Capital and Related Financing Activities	3,469,825	-	3,469,825
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(30,597)	-	(30,597)
Cash Flows from Investing Activities			
Receipt of interest income	11,457		11,457
Net increase (decrease) in cash and cash equivalents	125,003	(10,945)	114,058
Balances, beginning of year	(86,044)	97,101	11,057
Balances, end of year	<u>\$ 38,959</u>	<u>\$ 86,156</u>	<u>\$ 125,115</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (4,775,418)	\$ (89,376)	\$ (4,864,794)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	143,356		143,356
Donated commodities	319,336		319,336
State on-behalf payments	614,205	75,130	689,335
Change in assets and liabilities:			
Accounts receivable	(7,865)		(7,865)
Inventory	161,697		161,697
Due to other funds	285,728		285,728
Accounts payable	(66,721)	3,301	(63,420)
Net cash used by operating activities	<u>\$ (3,325,682)</u>	<u>\$ (10,945)</u>	<u>\$ (3,336,627)</u>
Schedule of non-cash transactions			
Donated commodities received from federal government	\$ 319,336	\$ -	\$ 319,336
Capital asset disposals (net)	\$ 758	\$ -	\$ 758
State on-behalf payments	\$ 614,205	\$ 75,130	\$ 689,335
Transfers of equipment	\$ 169,811	\$ -	\$ 169,811

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2006

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 176,140	\$ 1,123,062
Accounts receivable		33,316
Total Assets	<u>\$ 176,140</u>	<u>\$ 1,156,378</u>
Liabilities		
Accounts payable	\$ -	\$ 83,348
Due to student groups		1,073,030
Total Liabilities	<u>\$ -</u>	<u>\$ 1,156,378</u>
Net Assets Held in Trust	<u>\$ 176,140</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2006

	Private Purpose Trust Funds
Additions	
Net interest and investment gains	\$ 9,069
Other additions	7,645
Deductions	
Expenses paid	(12,434)
Change in net assets	4,280
Net Assets, beginning of year	171,860
Net Assets, end of year	<u>\$ 176,140</u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hardin County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hardin County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected to apply to its proprietary activities, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

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

Hardin County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hardin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 52 through 53. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- 1. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- 2. The School Age Child Care program is used to account for funds received from tuition fees charges for after school care of students.
- 3. The Educational Television program is used to account for funds received from production services and the sale of recorded media.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

III. Fiduciary Fund Type (Agency Fund)

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2006, to finance operations were \$.450 per \$100 valuation for real property, \$.456 per \$100 valuation for business personal property and \$.540 per \$100 valuation for motor vehicles.

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Interfund Balances

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

Budgetary Process

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

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

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

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

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2006.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, sick leave, capital projects and debt service requirements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restrictions for capital projects and debt service were present at year-end.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2006, \$1,051,138 of the District's bank balance of \$40,306,765 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,051,138</u>
--------------------------------	---------------------

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Non-Depreciable Assets:				
Land	\$ 1,997,403	\$ 750,500	\$ -	\$ 2,747,903
Construction in progress	11,179,081	1,267,434	(10,644,635)	1,801,880
Depreciable Assets:				
Land improvements	4,987,032	-	(4,991)	4,982,041
Buildings and improvements	106,541,171	18,105,579	(72,951)	124,573,799
Technology equipment	9,568,526	638,197	(963,825)	9,242,898
Vehicles	9,197,603	847,685	(11,706)	10,033,582
General equipment	6,610,616	566,290	(75,308)	7,101,598
Totals at historical cost	150,081,432	22,175,685	(11,773,416)	160,483,701
Accumulated depreciation:				
Land improvements	2,096,000	242,254	(3,390)	2,334,864
Buildings and improvements	27,983,555	2,612,560	(20,566)	30,575,549
Technology equipment	7,904,271	746,774	(951,526)	7,699,519
Vehicles	5,854,735	643,889	(11,706)	6,486,918
General equipment	5,434,948	208,534	(58,839)	5,584,643
Total accumulated depreciation	49,273,509	4,454,011	(1,046,027)	52,681,493
Government Activities Capital Assets - Net	<u>\$ 100,807,923</u>	<u>\$ 17,721,674</u>	<u>\$ (10,727,389)</u>	<u>\$ 107,802,208</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 3,654,420			
District administration	38,971			
School administration	53,273			
Business support	21,053			
Plant	69,521			
Transportation	616,773			
	<u>\$ 4,454,011</u>			
Non-Depreciable Assets:				
Land	\$ 16,790	\$ -	\$ -	\$ 16,790
Depreciable Assets:				
Land improvements	20,202			20,202
Buildings and improvements	318,523			318,523
Technology equipment	154,785		(7,475)	147,310
Vehicles	59,512			59,512
General equipment	2,603,711	200,408	(42,710)	2,761,409
Totals at historical cost	3,173,523	200,408	(50,185)	3,323,746
Accumulated depreciation:				
Land improvements	20,202			20,202
Buildings and improvements	247,758	6,371		254,129
Technology equipment	141,476	8,097	(7,475)	142,098
Vehicles	56,872	2,640		59,512
General equipment	1,918,288	126,248	(41,952)	2,002,584
Total accumulated depreciation	2,384,596	143,356	(49,427)	2,478,525
Business-type Activities Capital Assets - Net	<u>\$ 788,927</u>	<u>\$ 57,052</u>	<u>\$ (758)</u>	<u>\$ 845,221</u>

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE E – LONG-TERM OBLIGATIONS

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
July 1996	\$ 4,665,000	4.00% - 6.00%
September 1998	15,885,000	3.50% - 4.25%
February 2000	19,760,000	5.00% - 5.75%
July 2001A	9,405,000	4.10% - 4.75%
July 2001B	2,415,000	3.75% - 4.25%
December 2002	2,915,000	1.25% - 3.20%
July 2003	9,310,000	1.75% - 4.00%
June 2004	9,290,000	3.50% - 4.50%
February 2005	2,910,000	2.50% - 3.70%
June 2005 Energy	5,455,000	3.30% - 4.20%
June 2005 Refunding	17,350,000	3.00% - 4.00%
June 2006	14,145,000	4.00% - 4.375%

On June 1, 2006, the District issued \$14,145,000 in 2006 Series Revenue Bonds with an average interest rate of 4.37 percent for construction of a new Rineyville Elementary School. The net proceeds of \$13,874,830 (after \$80,580 in cost of issuance and \$238,708 of discount and \$49,118 in accrued interest) were deposited; \$13,825,712 in the Construction Fund and \$49,118 in the Debt Service Fund.

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

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2006, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2007	\$ 4,290,000	\$ 3,141,769	\$ 2,310,211	\$ 5,121,558
2008	4,450,000	2,971,388	2,303,024	5,118,364
2009	4,630,000	2,795,134	2,298,622	5,126,512
2010	4,800,000	2,612,888	2,294,974	5,117,914
2011	3,945,000	2,447,810	1,279,501	5,113,309
2012-2016	19,260,000	10,044,806	3,703,946	25,600,860
2017-2021	21,685,000	5,864,988	2,628,242	24,921,746
2022-2026	15,390,000	1,412,243	1,388,611	15,413,632
	<u>\$ 78,450,000</u>	<u>\$ 31,291,026</u>	<u>\$ 18,207,131</u>	<u>\$ 91,533,895</u>

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Revenue bonds payable	\$ 68,235,000	\$ 14,145,000	\$ 3,930,000	\$ 78,450,000	\$ 4,290,000
Accrued sick leave	3,995,324	606,042	324,391	4,276,975	427,697
	<u>\$ 72,230,324</u>	<u>\$ 14,751,042</u>	<u>\$ 4,254,391</u>	<u>\$ 82,726,975</u>	<u>\$ 4,717,697</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE F – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$6,552,367 were made by the State of Kentucky and \$306,185 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$5,156,031 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$68,982,753, and \$52,332,045 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 10.98% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2006 was \$2,596,409, which consisted of \$1,760,155 from the District and \$830,254 from the employees. The total covered payroll for CERS during the year was \$16,024,512. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

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

NOTE G– COMMITMENTS

During the year ended June 30, 2006, the Board entered into construction contracts for the renovation of Rineyville Elementary School.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE H – CONTINGENCIES

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

NOTE I – LITIGATION

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE L – DEFICIT OPERATING BALANCES

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

General Fund	\$ 1,733,730
Capital Outlay Fund	701,256

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 202,109
General	Construction	Construction	338,200
SEEK Capital Outlay	Debt Service	Debt Service	109,854
FSPK Fund	Debt Service	Debt Service	3,642,240
General	Debt Service	Debt Service	390,416
Construction	Food Service	Equipment	169,811
SEEK Capital Outlay	Construction	Construction	1,863,110

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

The interfund balances at June 30, 2006 were the Special Fund owed the General Fund \$256,793 and the Food Service Fund owed the General Fund \$285,728. These balances were for items paid for these funds by the General Fund.

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2006, was \$15,549,129. These payments were recorded as follows:

General Fund	\$14,859,795
Food Service Fund	614,205
School Age Child Care Fund	68,585
Educational Television Fund	6,544

NOTE Q – FISCAL AGENT

The District served as a fiscal agent for hurricane relief funds. \$6,000 was passed through the District.

NOTE R – SUBSEQUENT EVENTS

In August 2006, the District agreed to purchase approximately 14.31 acres of land from the City of Elizabethtown at a cost of approximately \$572,400.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY BOARD OF EDUCATION**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL****GENERAL FUND**

Year Ended June 30, 2006

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues			
From local sources:			
Taxes:			
Property	\$ 14,045,000	\$ 14,545,000	\$ 15,710,904
Motor vehicle	2,300,000	2,100,000	2,208,221
Utilities	3,500,000	3,500,000	3,874,145
Other	3,000	3,000	3,002
Earnings on investments	500,000	500,000	1,148,768
Other local revenues	294,758	399,091	664,822
Intergovernmental - State	47,672,988	47,712,489	63,359,669
Intergovernmental - Indirect Federal			177,362
Intergovernmental - Direct Federal	240,000	240,000	357,312
Total Revenues	<u>68,555,746</u>	<u>68,999,580</u>	<u>87,504,205</u>
Expenditures			
Instruction	44,394,745	44,890,421	51,926,666
Support services:			
Student	4,927,443	4,953,782	5,953,561
Instruction staff	5,002,435	4,857,570	5,855,862
District administrative	685,216	682,703	1,047,381
School administrative	4,121,116	4,008,985	5,098,732
Business	1,734,945	1,762,256	1,717,821
Plant operation and maintenance	8,777,048	10,233,444	9,619,646
Student transportation	5,664,824	6,095,091	6,985,200
Community service activities	48,148	83,024	39,142
Other	2,698,050	3,296,888	85,480
Total Expenditures	<u>78,053,970</u>	<u>80,864,164</u>	<u>88,329,491</u>
Excess (Deficit) of Revenues over Expenditures	<u>(9,498,224)</u>	<u>(11,864,584)</u>	<u>(825,286)</u>
Other Financing Sources (Uses)			
Proceeds from sale of fixed assets	10,000	11,200	22,281
Transfers in	162,050		
Transfers out	(244,000)	(545,488)	(930,725)
Total Other Financing Sources (Uses)	<u>(71,950)</u>	<u>(534,288)</u>	<u>(908,444)</u>
Net Change in Fund Balance	<u>(9,570,174)</u>	<u>(12,398,872)</u>	<u>(1,733,730)</u>
Fund Balance, July 1, 2005	<u>8,090,932</u>	<u>12,398,871</u>	<u>13,527,607</u>
Fund Balance, June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,793,877</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$14,859,795.

HARDIN COUNTY BOARD OF EDUCATION**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL****SPECIAL REVENUE FUND**

Year Ended June 30, 2006

	Original	Final	Actual
Revenues			
Earnings on investments	\$ -	\$ 8,760	\$ 11,460
Other local revenues	70,200	115,600	128,242
Intergovernmental - State	4,880,782	5,151,456	4,927,374
Intergovernmental - Indirect Federal	7,092,560	7,348,405	7,517,801
Intergovernmental - Direct Federal	138,856	138,856	181,556
Total Revenues	12,182,398	12,763,077	12,766,433
Expenditures			
Instruction	9,346,349	9,677,653	9,650,213
Support services:			
Student	23,539	48,163	46,370
Instruction staff	1,602,647	1,929,443	1,882,796
School administrative	40,260	71,178	71,054
Plant operation and maintenance	3,921	3,921	12,199
Student transportation	261,844	244,358	305,388
Community service activities	985,142	990,470	999,018
Total Expenditures	12,263,702	12,965,186	12,967,038
Excess (Deficit) of Revenues over Expenditures	(81,304)	(202,109)	(200,605)
Other Financing Sources (Uses)			
Transfers in	81,304	202,109	202,109
Total Other Financing Sources (Uses)	81,304	202,109	202,109
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	1,504
Fund Balance, July 1, 2005	-	-	193,646
Fund Balance, June 30, 2006	\$ -	\$ -	\$ 195,150

SUPPLEMENTARY INFORMATION

HARDIN COUNTY BOARD OF EDUCATION

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

	Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 247,589	\$ -	\$ 1,615,028	\$ 1,862,617
Total Assets and Resources	<u>\$ 247,589</u>	<u>\$ -</u>	<u>\$ 1,615,028</u>	<u>\$ 1,862,617</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-
Fund Balances				
Reserved for:				
Debt service			1,615,028	1,615,028
Unreserved:				
Undesignated, reported in:				
Capital projects funds	247,589			247,589
Total Fund Balances	<u>247,589</u>	<u>-</u>	<u>1,615,028</u>	<u>1,862,617</u>
Total Liabilities and Fund Balances	<u>\$ 247,589</u>	<u>\$ -</u>	<u>\$ 1,615,028</u>	<u>\$ 1,862,617</u>

HARDIN COUNTY BOARD OF EDUCATION

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

Year Ended June 30, 2006

	Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 2,172,319	\$ -	\$ 2,172,319
Earnings on investments	28,618		117,932	146,550
Intergovernmental - State	1,243,090	1,476,151	2,178,636	4,897,877
Total Revenues	1,271,708	3,648,470	2,296,568	7,216,746
Expenditures				
Facilities and construction				
Other		6,230		6,230
Debt service:				
Principal			3,930,000	3,930,000
Interest			2,346,114	2,346,114
Total Expenditures	-	6,230	6,276,114	6,282,344
Excess (Deficit) of Revenues over Expenditures	1,271,708	3,642,240	(3,979,546)	934,402
Other Financing Sources (Uses)				
Transfers in			4,142,510	4,142,510
Transfers out	(1,972,964)	(3,642,240)		(5,615,204)
Total Other Financing Sources (Uses)	(1,972,964)	(3,642,240)	4,142,510	(1,472,694)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(701,256)	-	162,964	(538,292)
Fund balance, July 1, 2005	948,845	-	1,452,064	2,400,909
Fund balance, June 30, 2006	\$ 247,589	\$ -	\$ 1,615,028	\$ 1,862,617

HARDIN COUNTY BOARD OF EDUCATION**COMBINING STATEMENT OF NET ASSETS - NONMAJOR PROPRIETARY FUNDS
- ENTERPRISE FUNDS**

June 30, 2006

	<u>School Age Child Care</u>	<u>Educational Television</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	<u>\$ 59,792</u>	<u>\$ 26,364</u>	<u>\$ 86,156</u>
Total Current Assets	<u>59,792</u>	<u>26,364</u>	<u>86,156</u>
 Liabilities			
<u>Current Liabilities</u>			
Accounts payable	<u>7,780</u>	<u>1,620</u>	<u>9,400</u>
Total Current Liabilities	<u>7,780</u>	<u>1,620</u>	<u>9,400</u>
 <u>Net Assets</u>			
Unrestricted	<u>52,012</u>	<u>24,744</u>	<u>76,756</u>
Total Net Assets	<u>\$ 52,012</u>	<u>\$ 24,744</u>	<u>\$ 76,756</u>

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS - PROPRIETARY FUNDS

Year Ended June 30, 2006

	School Age Child Care	Educational Television	Total Nonmajor Enterprise Funds
Operating Revenues			
Tuition and fees	\$ 343,367	\$ 59,079	\$ 402,446
Total Operating Revenues	343,367	59,079	402,446
Operating Expenses			
Salaries and wages	386,345	36,521	422,866
Materials and supplies	25,546	2,273	27,819
Other operating expenses	24,862	16,275	41,137
Total Operating Expenses	436,753	55,069	491,822
Operating income (loss)	(93,386)	4,010	(89,376)
Non-Operating Revenues (Expenses)			
State on-behalf payments	68,586	6,544	75,130
Total Non-Operating Revenues (Expenses)	68,586	6,544	75,130
Change in net assets	(24,800)	10,554	(14,246)
Net Assets, July 1, 2005	76,812	14,190	91,002
Net Assets, June 30, 2006	\$ 52,012	\$ 24,744	\$ 76,756

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS - PROPRIETARY FUNDS

Year Ended June 30, 2006

	School Age Child Care	Educational Television	Total Other Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Tuition and fees	\$ 343,367	\$ 59,079	\$ 402,446
Cash paid to/for:			
Employees	(317,759)	(29,977)	(347,736)
Supplies	(23,084)	(1,434)	(24,518)
Other activities	(24,862)	(16,275)	(41,137)
Net Cash Provided (Used) by Operating Activities	<u>(22,338)</u>	<u>11,393</u>	<u>(10,945)</u>
Net increase (decrease) in cash and cash equivalents	(22,338)	11,393	(10,945)
Balances, beginning of year	<u>82,130</u>	<u>14,971</u>	<u>97,101</u>
Balances, end of year	<u>\$ 59,792</u>	<u>\$ 26,364</u>	<u>\$ 86,156</u>
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (93,386)	\$ 4,010	\$ (89,376)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
State on-behalf payments	68,586	6,544	75,130
Change in assets and liabilities:			
Accounts payable	2,462	839	3,301
Net cash provided (used) by operating activities	<u>\$ (22,338)</u>	<u>\$ 11,393</u>	<u>\$ (10,945)</u>
Schedule of non-cash transactions:			
State on-behalf payments	<u>\$ 68,586</u>	<u>\$ 6,544</u>	<u>\$ 75,130</u>

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2006

	Bluegrass Middle School	Brown Street Education Center	Central Hardin High School	East Hardin Middle School	G.C. Burkhead Elementary	J.T. Alton Middle School
Assets						
Cash and cash equivalents	\$ 47,674	\$ 4,574	\$ 143,008	\$ 81,730	\$ 83,257	\$ 99,519
Accounts receivable	1,323	1,157	4,065	2,543	221	-
Total Assets	<u>\$ 48,997</u>	<u>\$ 5,731</u>	<u>\$ 147,073</u>	<u>\$ 84,273</u>	<u>\$ 83,478</u>	<u>\$ 99,519</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ 41,201	\$ 4,433	\$ -	\$ 6,794
Due to student groups	48,997	5,731	105,872	79,840	83,478	92,725
Total Liabilities	<u>\$ 48,997</u>	<u>\$ 5,731</u>	<u>\$ 147,073</u>	<u>\$ 84,273</u>	<u>\$ 83,478</u>	<u>\$ 99,519</u>
	Howe valley Elementary	John Hardin High School	Lakewood Elementary	Lincoln Trail Elementary	Meadowview Elementary	New Highland Elementary
Assets						
Cash and cash equivalents	\$ 20,241	\$ 113,599	\$ 20,945	\$ 47,622	\$ 20,437	\$ 35,017
Accounts receivable	185	4,362	-	-	900	-
Total Assets	<u>\$ 20,426</u>	<u>\$ 117,961</u>	<u>\$ 20,945</u>	<u>\$ 47,622</u>	<u>\$ 21,337</u>	<u>\$ 35,017</u>
Liabilities						
Accounts payable	\$ -	\$ 3,320	\$ -	\$ -	\$ 2,991	\$ -
Due to student groups	20,426	114,641	20,945	47,622	18,346	35,017
Total Liabilities	<u>\$ 20,426</u>	<u>\$ 117,961</u>	<u>\$ 20,945</u>	<u>\$ 47,622</u>	<u>\$ 21,337</u>	<u>\$ 35,017</u>
	North Hardin High School	Radcliff Middle School	Rineyville Elementary	Creekside Elementary	Vine Grove Elementary	West Hardin Middle School
Assets						
Cash and cash equivalents	\$ 212,214	\$ 26,836	\$ 43,695	\$ 23,920	\$ 24,769	\$ 27,790
Accounts receivable	12,417	345	1,426	-	-	-
Total Assets	<u>\$ 224,631</u>	<u>\$ 27,181</u>	<u>\$ 45,121</u>	<u>\$ 23,920</u>	<u>\$ 24,769</u>	<u>\$ 27,790</u>
Liabilities						
Accounts payable	\$ 18,721	\$ -	\$ 1,273	\$ 332	\$ 1,642	\$ 473
Due to student groups	205,910	27,181	43,848	23,588	23,127	27,317
Total Liabilities	<u>\$ 224,631</u>	<u>\$ 27,181</u>	<u>\$ 45,121</u>	<u>\$ 23,920</u>	<u>\$ 24,769</u>	<u>\$ 27,790</u>
	Parkway Elementary	Woodland Elementary	Agency Fund			
Assets						
Cash and cash equivalents	\$ 27,393	\$ 18,822	\$ 1,123,062			
Accounts receivable	-	4,372	33,316			
Total Assets	<u>\$ 27,393</u>	<u>\$ 23,194</u>	<u>\$ 1,156,378</u>			
Liabilities						
Accounts payable	\$ 2,115	\$ 53	\$ 83,348			
Due to student groups	25,278	23,141	1,073,030			
Total Liabilities	<u>\$ 27,393</u>	<u>\$ 23,194</u>	<u>\$ 1,156,378</u>			

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

CENTRAL HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES July 1, 2005	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2006	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2006	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2006	FUND BALANCES June 30, 2006
Academic Team	\$ 248	\$ 6,570	\$ 6,198	\$ 620	\$ -	\$ 620	\$ -
Agriculture Department	2,406	5,660	3,710	4,356	-	-	4,356
Art Club	839	360	586	613	-	-	613
Art Department	22	-	-	22	-	-	22
Astronomy Club	1,346	2,831	3,761	416	-	9	407
Athletic Fund	912	30,644	29,027	2,529	-	1,695	834
B.A.D. Club	122	185	-	307	-	-	307
Band	527	1,700	2,107	120	-	-	120
Baseball	99	4,691	4,640	150	-	137	13
Beta Club	1,105	7,198	6,675	1,628	-	-	1,628
Bookstore	783	456	301	938	-	-	938
Boy's Basketball	4,198	29,302	29,313	4,187	-	218	3,969
Bruin Educator's Club	165	670	709	126	-	-	126
Business Education Dept.	5,546	1,211	2,391	4,366	-	-	4,366
Cheerleaders	-	2,284	1,210	1,074	-	-	1,074
Chess Club	56	45	37	64	-	-	64
CHHS Young Democrats	1	293	246	48	-	-	48
Chorus	2,093	9,334	9,215	2,212	-	147	2,065
Close Up Foundation	148	-	148	-	-	-	-
Concessions Athletics	72	25,464	25,258	278	-	-	278
Counseling Dept.	2,073	15,130	16,028	1,175	-	-	1,175
Cross Country	2,011	3,868	5,402	477	-	-	477
Dance Team	36	340	363	13	-	-	13
Disaster Relief	-	3,680	3,680	-	-	-	-
Elbert Watts Scholarship	-	-	-	-	-	-	-
English Club	110	-	-	110	-	-	110
English Department	1,040	2,236	2,120	1,156	-	-	1,156
Environmental Club	-	-	-	-	-	-	-
Facility Usage	-	-	-	-	-	-	-
FACS	317	256	301	272	-	-	272
Faculty Flower Fund	-	415	-	415	-	-	415
Faculty Gift Fund	59	-	-	59	-	-	59
FBLA	822	1,310	778	1,354	-	-	1,354
FCA	-	353	-	353	-	-	353
FCCLA	431	4,663	4,164	930	-	-	930
FFA	4,601	50,086	48,674	6,013	-	1,179	4,834
Football	7,523	34,071	26,365	15,229	75	15,207	97
Foreign Language Dept.	56	2,641	2,697	-	-	-	-
French Club	27	260	73	214	-	88	126
German Club	96	1,528	1,317	307	-	-	307
Girl's Basketball	1,498	35,961	37,386	73	-	73	-
Golf	-	3,997	3,997	-	-	-	-
Grade 10	51	-	-	51	-	-	51
Grade 11	6	-	-	6	-	-	6
Grade 12	2,614	19,379	18,183	3,810	-	225	3,585
Grade 9	-	-	-	-	-	-	-
Journalism	191	9,677	9,307	561	-	-	561
Jr. ROTC	2,095	25,091	14,222	12,964	-	-	12,964
Junior Beta Club	336	-	336	-	-	-	-
Library	4,146	1,434	1,232	4,348	-	1,964	2,384
Math Department	1,940	276	-	2,216	-	-	2,216
Matmaids	644	266	372	538	-	-	538
Medical Career Club	-	-	-	-	-	-	-
MMD Department	817	715	749	783	-	-	783
Multi Cultural Enrichment	-	-	-	-	-	-	-
Physical Education Dept.	-	-	-	-	-	-	-

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

CENTRAL HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES July 1, 2005	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2006	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2006	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2006	FUND BALANCES June 30, 2006
Project Graduation Fund	327	10,730	7,252	3,805	-	2,933	872
School Concessions-Faculty	725	2,308	3,018	15	472	15	472
School Concessions-Student	1,394	15,032	12,835	3,591	274	-	3,865
School Fund	11,956	72,892	74,240	10,608	3,065	4,111	9,562
Science Department	582	2,495	2,699	378	-	-	378
Soccer Boy's	280	14,654	11,680	3,254	-	108	3,146
Soccer Girl's	280	8,185	6,783	1,682	-	73	1,609
Social Studies Department	40	875	721	194	-	10	184
Softball	-	11,802	9,058	2,744	179	2,635	288
Spanish Club	1,208	687	537	1,358	-	-	1,358
Special Education Dept.	1	201	185	17	-	-	17
Speech	-	10,005	10,005	-	-	-	-
Student Council	3,466	3,692	3,639	3,519	-	-	3,519
Swim Team	639	333	10	962	-	-	962
Tech Ed. Dept.	407	-	90	317	-	-	317
Teenage Republican Party	120	217	108	229	-	-	229
Tennis	125	1,282	1,170	237	-	237	-
Textbooks	2,889	1,518	1,698	2,709	-	14	2,695
TMH Department	3,297	1,336	1,892	2,741	-	60	2,681
Track Boy's	979	4,805	2,603	3,181	-	278	2,903
Track Girl's	1,206	6,122	3,825	3,503	-	159	3,344
TSA Club	5,603	9,791	11,588	3,806	-	976	2,830
Tsunami Relief	-	-	-	-	-	-	-
Varsity Club	1,749	1,750	1,487	2,012	-	22	1,990
Volleyball	1,441	6,653	7,730	364	-	364	-
Wrestling	176	12,521	12,623	74	-	74	-
Y Club	1,363	12,104	12,347	1,120	-	-	1,120
Yearbook	10,428	24,486	22,476	12,438	-	7,571	4,867
Youth in Charge	619	1,335	1,284	670	-	-	670
Sub Total	105,528	584,342	546,861	143,009	4,065	41,202	105,872
Interfund Transfers		73,448	73,448				
TOTAL	<u>\$ 105,528</u>	<u>\$ 510,894</u>	<u>\$ 473,413</u>	<u>\$ 143,009</u>	<u>\$ 4,065</u>	<u>\$ 41,202</u>	<u>\$ 105,872</u>

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

JOHN HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2005			June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
Academic Team	\$ 182	\$ 2,428	\$ 2,421	\$ 189	\$ -	\$ -	\$ 189
Agriculture Department	10,925	16,518	17,264	10,179	-	-	10,179
Art Club	149	143	64	228	-	-	228
Art Department	-	-	-	-	-	-	-
Arts & Humanities Dept.	-	-	-	-	-	-	-
ASL Club	-	30	-	30	-	-	30
Athletic Concession	-	30,367	30,367	-	-	-	-
Athletic Fund	845	9,082	6,211	3,716	-	-	3,716
Band	43	2,582	2,572	53	-	-	53
Band Equipment/Usage	75	2,000	2,000	75	-	-	75
Baseball	1,495	4,453	3,774	2,174	-	-	2,174
Basketball-Boy's	5,898	35,220	33,866	7,252	-	-	7,252
Basketball-Girl's	663	9,275	7,295	2,643	-	-	2,643
Bonano Donations	-	-	-	-	-	-	-
Business Education Dept.	64	592	566	90	-	-	90
CATS Incentive	48	200	236	12	-	-	12
Cheerleading	2,944	9,290	11,992	242	-	-	242
Chess Club	136	-	-	136	-	-	136
Chorus	483	3,833	3,631	685	-	35	650
Counseling Department	-	14,375	13,422	953	-	-	953
Cross Country	985	4,881	4,245	1,621	-	-	1,621
Drama Club	1,761	3,088	1,733	3,116	-	40	3,076
English Department	243	2,856	2,948	151	-	-	151
Excel Program	-	-	-	-	-	-	-
Facility Rentals	-	76	76	-	-	-	-
Faculty Awards	229	-	1	228	-	-	228
Faculty Concessions	-	7,924	7,924	-	586	31	555
Faculty Flower Fund	-	1,521	945	576	-	74	502
Faculty Social Fund	97	-	97	-	-	-	-
Family & Consumer Sciences	-	2,392	2,177	215	-	-	215
FBLA	1,590	12,819	14,128	281	874	-	1,155
FCA	697	884	1,163	418	-	-	418
FCCLA	1,592	4,912	5,472	1,032	-	-	1,032
FEA	88	1,345	883	550	-	-	550
FFA	1,820	28,684	27,212	3,292	-	1,091	2,201
Football	10,603	75,241	63,784	22,060	-	1,614	20,446
Football Fundraiser	1,402	11,007	10,772	1,637	-	425	1,212
Foreign Language Dept.	-	-	-	-	-	-	-
General Fund	-	-	-	-	-	-	-
General Funds	1,745	12,641	12,294	2,092	2,400	-	4,492
Golf	223	3,640	3,746	117	-	-	117
Grade 10	12	1,313	1,177	148	-	-	148
Grade 11	323	2,344	2,492	175	-	-	175
Grade 12	83	10,686	9,351	1,418	-	-	1,418
Grade 9	22	1,060	977	105	-	-	105
Hurricane Relief	-	787	787	-	-	-	-
International Club	-	701	637	64	-	-	64
Investments	-	-	-	-	-	-	-
Journalism	777	2,473	2,046	1,204	-	-	1,204
JROTC	3,203	9,391	7,961	4,633	-	-	4,633
Just For Justin	743	-	743	-	-	-	-
Lady Dawg Club	-	12,568	11,825	743	-	-	743
Library/Media Center	2,635	506	2,624	517	-	-	517
Literacy First	-	500	498	2	-	-	2
Math Department	1,244	160	7	1,397	-	-	1,397
Matmaids	56	-	-	56	-	-	56
National Honor Society	165	1,320	1,243	242	-	-	242
Physical Education Dept.	-	-	-	-	-	-	-
Project Graduation	232	10,426	10,153	505	-	-	505
Relay for Life	-	1,099	-	99	-	-	99
SADD Club	798	435	1,001	232	-	-	232
Scholarship	-	-	-	-	-	-	-

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

JOHN HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2005			June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
School Concessions	1,960	1,716	940	2,736	72	-	2,808
School Store	10	-	-	10	-	-	10
Science Department	240	788	932	96	-	-	96
Soccer-Boys	185	5,242	3,041	2,386	-	-	2,386
Soccer-Girls	676	12,564	12,287	953	-	-	953
Social Studies Dept.	104	-	-	104	-	-	104
Softball	767	9,682	8,643	1,806	-	-	1,806
Special Education Dept.	151	1,083	1,234	-	177	-	177
Special Education Learning	-	363	-	363	-	-	363
Speech	50	1,540	1,522	68	-	-	68
Student Council	965	1,112	1,161	916	-	-	916
Student School Fund	3,142	4,327	5,355	2,114	-	-	2,114
Swimming	-	-	-	-	-	-	-
Tech Education Dept.	2	-	-	2	-	-	2
Tech Student Association	963	15	91	887	-	-	887
Teenage Republicans	260	-	-	260	-	-	260
Tennis	111	4,577	4,688	-	-	-	-
Textbooks	1,406	255	-	1,661	-	-	1,661
Three-Point Club	4,168	14,090	12,999	5,259	-	-	5,259
Track	136	5,366	5,502	-	253	-	253
Tsunami Relief Fund	1	-	-	1	-	-	1
Volleyball	1,295	4,310	2,215	3,390	-	-	3,390
Winter Guard	64	-	56	8	-	-	8
Wrestling	339	6,272	4,540	2,071	-	-	2,071
Y Club	132	15,126	14,680	578	-	-	578
Yearbooks	8,934	5,272	3,858	10,348	-	11	10,337
Subtotal	83,379	463,768	433,547	113,600	4,362	3,321	114,641
Interfund Transfers	-	39,304	39,304	-	-	-	-
TOTAL	<u>\$ 83,379</u>	<u>\$ 424,464</u>	<u>\$ 394,243</u>	<u>\$ 113,600</u>	<u>\$ 4,362</u>	<u>\$ 3,321</u>	<u>\$ 114,641</u>

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

NORTH HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2005			June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
Academic Team	\$ 1,439	\$ 2,087	\$ 1,765	\$ 1,761	\$ -	\$ -	\$ 1,761
Agriculture Department	5,975	2,919	1,297	7,597	-	-	7,597
Art Club	1,484	965	1,015	1,434	-	-	1,434
Art Department	23	-	-	23	-	-	23
Athletic Fund	914	75,235	68,850	7,299	2,000	2,982	6,317
Athletic Uniforms	14,198	35,154	30,980	18,372	9,446	13,343	14,475
B & G Drill Team/JROTC	1,939	11,435	11,564	1,810	-	-	1,810
Beta Club	-	5,167	2,913	2,254	-	-	2,254
Band	2,620	40,081	42,253	448	-	-	448
Baseball	189	10,358	7,744	2,803	-	-	2,803
Bingo Fund	-	179,120	179,120	-	-	-	-
Boys Basketball	2,317	11,949	11,321	2,945	-	-	2,945
Business Education Dept.	-	-	-	-	-	-	-
Cheerleaders	4,390	9,908	11,419	2,879	-	-	2,879
Chess Club	156	-	-	156	-	-	156
Chorus	938	6,653	3,345	4,246	-	-	4,246
Counseling Department	2,673	3,809	4,786	1,696	-	-	1,696
Cross Country/Boys	1,487	4,666	4,172	1,981	-	-	1,981
Cross Country/Girls	978	3,855	3,369	1,464	-	-	1,464
Dance Team	340	2,806	-	3,146	-	-	3,146
Drama Club	512	308	357	463	-	-	463
English Department	276	-	-	276	-	-	276
Faculty Concessions	163	5,200	5,303	60	553	-	613
Faculty Flower Fund	-	836	415	421	-	-	421
Family & Consumer Sciences	1,761	5,036	3,662	3,135	-	-	3,135
FBLA	37	1,467	1,398	106	-	-	106
FCA	969	501	775	695	-	-	695
FCCLA	2,217	7,484	7,737	1,964	-	-	1,964
FFA	5,702	11,101	11,057	5,746	-	-	5,746
Football	617	12,656	11,338	1,935	-	1,500	435
Foreign Language Department	315	1,798	1,622	491	-	-	491
French Club	1,452	1,519	496	2,475	-	-	2,475
French Travel	-	-	-	-	-	-	-
Future Educators of America	622	850	864	608	-	-	608
German Club	2,300	1,026	801	2,525	-	-	2,525
German Travel	-	-	-	-	-	-	-
Girls Basketball	5,727	11,123	13,398	3,452	-	-	3,452
Golf	861	2,276	2,730	407	-	-	407
Grade 10	-	2,906	1,800	1,106	-	-	1,106
Grade 11	243	2,889	1,813	1,319	-	-	1,319
Grade 12	2,506	19,893	16,437	5,962	-	-	5,962
Grade 9	-	1,597	1,597	-	-	-	-
Instructional/Operations	3,444	45,879	45,771	3,552	-	-	3,552
Investments	-	-	-	-	-	-	-
Journalism	277	4,755	4,781	251	-	-	251
JROTC	833	18,684	19,514	3	-	-	3
JROTC Color Guard	1,599	2,607	3,990	216	-	-	216
JROTC Rifle Team	1,021	2,607	3,348	280	-	-	280
Karate Club	367	769	1,136	-	-	-	-
KJHS Club	345	315	71	589	-	-	589
Library/Media Center	465	1,443	1,502	406	-	-	406
Math Department	715	774	658	831	-	-	831
Matmaids	1,372	488	1,860	-	-	-	-
National Honor Society	3,654	9,551	9,851	3,354	-	-	3,354
NHHS Bingo	50,227	310,098	330,758	29,567	-	-	29,567
Nurse	44	-	-	44	-	-	44
Pep Club	880	2,874	2,996	758	-	-	758

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

NORTH HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2006

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2005			June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
Photography Club	277	681	243	715	-	-	715
Physical Education Dept.	56	180	180	56	-	-	56
SADD	-	6,319	6,319	-	-	-	-
School Concessions	743	11,312	10,792	1,263	418	-	1,681
School Fund	5,138	7,482	11,715	905	-	-	905
School Security Fund	-	-	-	-	-	-	-
School Store	2,441	7,485	6,332	3,594	-	-	3,594
Science Class-Wolfe	-	-	-	-	-	-	-
Science Club	1,195	1,448	788	1,855	-	-	1,855
Science Department	697	5,176	3,279	2,594	-	-	2,594
Soccer/Boys	3,044	12,470	6,314	9,200	-	600	8,600
Soccer/Girls	5,260	6,314	2,725	8,849	-	-	8,849
Social Studies Dept.	-	-	-	-	-	-	-
Softball	4,145	7,888	9,401	2,632	-	-	2,632
Spanish Club	1,234	1,054	251	2,037	-	296	1,741
Spanish Travel	7	-	-	7	-	-	7
Special Education Dept.	943	3,142	3,669	416	-	-	416
Speech	93	20	100	13	-	-	13
Student Council	2,038	2,363	2,453	1,948	-	-	1,948
Swimming	4,740	3,482	3,733	4,489	-	-	4,489
Student Support Services	305	819	541	583	-	-	583
Tech Ed Department	249	371	-	620	-	-	620
Tennis	1,020	2,330	1,913	1,437	-	-	1,437
Textbooks	208	3,159	2,692	675	-	-	675
Track/Boys	7,125	12,479	10,554	9,050	-	-	9,050
Track/Girls	26	3,928	1,374	2,580	-	-	2,580
Travel	1,504	200	1,666	38	-	-	38
TSA Club	2,827	5,374	4,915	3,286	-	-	3,286
Volleyball	1,862	6,422	4,025	4,259	-	-	4,259
Witten Scholarship	649	-	649	-	-	-	-
Wrestling	346	5,918	5,491	773	-	-	773
Y Club	361	6,728	6,937	152	-	-	152
Yearbooks	16,583	29,280	32,986	12,877	-	-	12,877
Youth in Charge	-	-	-	-	-	-	-
Subtotal	198,699	1,051,301	1,037,786	212,214	12,417	18,721	205,910
Interfund Transfers	-	196,193	196,193	-	-	-	-
TOTAL	<u>\$198,699</u>	<u>\$ 855,108</u>	<u>\$ 841,593</u>	<u>\$ 212,214</u>	<u>\$ 12,417</u>	<u>\$ 18,721</u>	<u>\$ 205,910</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster - Passed Through State Department of Education:			
National School Lunch	10.555	* 575-05-02	\$ 554,446
		575-06-02	1,785,650
School Breakfast Program	10.553	* 576-05-05	228,092
		576-06-05	749,398
Summer Food Service Program for Children	10.559	* 569-05-24	116,646
TOTAL CHILD NUTRITION CLUSTER			3,434,232
<u>OTHER U.S. DEPARTMENT OF AGRICULTURE PROGRAMS</u>			
Passed Through State Dept. of Agriculture Food Donation	10.550	N/A	319,336
TOTAL U.S. DEPT. OF AGRICULTURE			3,753,568
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster - Passed Through State Department of Education:			
Special Education - Grants to States	84.027	* 3375	129,808
		3376	2,525,405
Special Education - Preschool Grants	84.173	* 3436	165,696
TOTAL SPECIAL EDUCATION CLUSTER			2,820,909
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Impact Aid	84.041	N/A	357,312
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3105	632,832
		3106	2,053,739
		3204	18,527
		3205	120,629
		3136	34,922
		3146	28,010
Migrant Education - State Grant Program	84.011	3115	30,511
		3115R	1,035
		3116	9,910
		3116R	50,798
English Language Acquisition Grants	84.365	3454	116
		3455	27,071
		3456	9,019
Vocational Education - Basic Grants to States	84.048	3485A	3,985
		3486	144,987

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	4064 4065 4066	3,125 71,873 11,203
State Grants for Innovative Programs	84.298	3346	31,398
Improving Teacher Quality - State Grants	84.367	4014 4015 4016	2,000 148,660 589,067
Education Technology - State Grants	84.318	4254 4255 42556 4256	2,930 17,475 100,510 34,024
Twenty-First Century Community Learning Centers	84.287	5504 5505	2,288 133,708
Hurricane Relief Funds	84.938 *	6926 6926C	130,305 32,856
Passed Through Cabinet for Workforce Development Adult Education - State Grant Program	84.002	3656 3706 3736 3736S 3806 6836	39,158 8,266 121,478 8,266 32,831 4,783
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>7,870,516</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
National Guard Civilian Youth Opportunities	12.404	5046	<u>181,556</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>181,556</u>
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
Passed Through State Department of Education: Learn and Service America School & Community Based Programs	94.004	6756	<u>3,575</u>
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>3,575</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 11,809,215</u></u>

* Denotes major federal program
The accompanying notes are an integral part of this schedule.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hardin County Board of Education and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

REFERENCE NUMBER 06-1

DEPARTMENT OF EDUCATION – Hurricane Relief Funds CFDA No. 84.938 – Grant period – Year ending June 30, 2006.

CRITERIA – To be an eligible student, the student had to be enrolled in a school in an area for which the Federal Government later declared a major disaster area related to Hurricane Katrina or Hurricane Rita and the student must have documentation to show compliance with this. Also, under federal laws, the payments to non-public schools cannot exceed the cost of tuition, fees, and reasonable transportation.

STATEMENT OF CONDITION – Documentation stating the student was from an effected area was not obtained on some students. Also, the Board reimbursed students that were not considered to be non-public schools.

EFFECT OF THE CONDITION – The costs for which documentation could not be located and the costs related to the payments for nonpublic schools may be disallowed.

QUESTIONED COSTS – Total questioned costs amount to \$36,660. These costs have been obtained by taking the number of students multiplied by the reimbursable rate.

CAUSE OF CONDITION – Program administrators did not follow the documentation requirements for an eligible student and did not comply with the definition of a nonpublic school.

RECOMMENDATION – Hardin County School District should ensure that program administrators follow the documentation requirements and comply with the definition of a nonpublic school.

MANAGEMENT'S RESPONSE – We received a directive e-mail from Gene Wilhoit, Kentucky Commissioner of Education, on Thursday, January 19, 2006, in regards to the definition of nonpublic schools in Kentucky. "The Hurricane Education Recovery Act" defines a nonpublic school as a school that is accredited or licensed otherwise and operates in accordance with state law. In Kentucky, home schools are considered to have the same standing as nonpublic schools. Therefore, home schools that were in existence that served displaced students by Hurricanes Katrina or Rita are eligible for funds under the Emergency Impact Aid for Displaced Students program.

Hardin County Schools also received direction from Kentucky Department of Education on October 7, 2005 to gather information on students who have enrolled in Kentucky's public and private schools due to being displaced by the hurricanes. The direction received was to enroll the students as quickly as possible and to place the students in an attendance group for identification. Instructions were given to obtain as much information as possible. If no information was available, our schools were instructed to have the parent sign an affidavit proved by the United States Department of Education with regard to the McKinney-Vento and Enrollment of Displaced or Homeless students. This documentation was used as verification of prior enrollment and of current living status.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2006

DEPARTMENT OF EDUCATION

FINDING 05-1: Idea B and Idea B Preschool

CONDITION: Documentation of preparation of personnel activity reports and/or periodic certifications was not completed for all employees charged to the Idea B and Idea B – Preschool grants.

RECOMMENDATION: The auditor recommended that procedures be implemented requiring the completion of personnel activity reports and/or periodic certifications. Management concurred with the recommendation and indicated that the procedures would be implemented.

CURRENT STATUS: The recommendation was adopted and corrected.

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

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



America Counts on CPAs

Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hardin County Board of Education as of and for the year ended June 30, 2006, which collectively comprise the Hardin County Board of Education's basic financial statements and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hardin County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We also noted certain additional matters that we have reported to the management of Hardin County Board of Education in a separate letter dated August 18, 2006.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Hardin County Board of Education, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
August 18, 2006

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



America Counts on CPAs

Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

Compliance

We have audited the compliance of Hardin County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Hardin County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hardin County Board of Education's management. Our responsibility is to express an opinion on Hardin County Board of Education's compliance based on our audit.

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

As described in item 06-1 in the accompanying schedule of findings and questioned costs, Hardin County School District did not comply with requirements regarding disbursements that are applicable to its Hurricane Relief Funds program. Compliance with such requirements is necessary, in our opinion, for Hardin County School District, to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Hardin County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Hardin County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hardin County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Hardin County Board of Education's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

Stiles, Carter & Associates

Certified Public Accountants
August 18, 2006

MANAGEMENT LETTER COMMENTS

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



America Counts on CPAs

Members of the Board of Education of
Hardin County Board of Education
Elizabethtown, Kentucky

In planning and performing our audit of the basic financial statements of Hardin County Board of Education for the year ended June 30, 2006, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 18, 2006, contains our report on the District's internal control structure. This letter does not affect our report dated August 18, 2006, on the financial statements of the Hardin County Board of Education.

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

Stiles, Carter & Associates

Certified Public Accountants
August 18, 2006

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS

June 30, 2006

UNCORRECTED PRIOR YEAR COMMENTS

JOHN HARDIN HIGH SCHOOL

Concession Sales

We noted that reasonable profits on concession sales are not verified correctly using the Inventory Control Worksheet (Form F-SA-5). The assistant principal provided some documentation for concession inventory; however, it was not correctly completed.

Management Response

Our assistant principal in charge of concessions will do his best to comply with the spreadsheet the auditors provided.

EAST HARDIN MIDDLE SCHOOL

Deposit of Funds

We noted several instances of deposits not made on a timely basis.

Management Response

We felt like we were making deposits on a timely basis, but will continue to improve in that area.

Faculty vs. Student Monies

During review of the Library Activity Fund, discovered check #6034 issued to Wal-Mart on 9/8/2005 in the amount of \$22.87 for faculty breakfast. Also, we discovered check #5993 issued to Bev's Classic Catering on 8/8/2005 in the amount of \$106.00 for faculty breakfast.

Management Response

This was an oversight and we will make certain that only faculty-generated monies will be spent on this type of expenditure.

CURRENT YEAR COMMENTS

NORTH HARDIN HIGH SCHOOL

We noted that the Fund Raiser Worksheet (Form F-SA-2B) is not completed for all fundraisers.

Management Response

We have made all sponsors aware of the requirement to complete the Fund Raiser Worksheet (Form F-SA-2B).

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

NORTH HARDIN HIGH SCHOOL – CONTINUED

None of the school's booster clubs submitted the annual booster club budget to the principal for the 2005/2006 school year.

Management Response

Booster club budgets have been turned in for the 06'-07' school year.

None of the school's booster clubs submitted an annual financial report to the principal for the 2005/2006 school year.

Management Response

We are meeting with the presidents of our booster clubs to define "annual financial reports". Many booster clubs turned in account statements last year, but did not provide a detailed report.

CENTRAL HARDIN HIGH SCHOOL

Cash Advance Receipts

During our review of check #24581 issued on 3/15/2006 in the amount of \$270 for a cheerleader competition, the total cash spent was \$248.22 but the receipts to support the expenses only totaled \$48.64.

Management Response

Coach did not properly account for funds (no longer employed in this position). New coach has been instructed on responsibilities of this situation.

Concession Sales

We noted that reasonable profits on concession sales are not verified correctly using the Inventory Control Worksheet (Form F-SA-5). The school treasurer provided some documentation for concession inventory, however, it was not correctly completed.

Management Response

This was noted during the audit, documentation will be submitted correctly.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

CENTRAL HARDIN HIGH SCHOOL - CONTINUED

Booster Club Budgets

Cheerleader, Boys Soccer, Girls Soccer and Wrestling booster clubs did not submit the annual booster club budget to the principal for the 2005/2006 school year.

Management Response

Booster Clubs were made aware and will comply with the guidelines. The names of club officers and the budget will be provided to principal within the first 30 days of school.

Booster Club Reports

Cheerleader, Boys Soccer, Girls Soccer, Golf and Wrestling of the school's athletic booster clubs did not submit a list of expenditures by payee with the annual financial report with to the principal for the 2005/2006 school year. Volleyball booster club did not submit an annual report.

Management Response

Booster clubs will submit an annual financial report to the principal by July 25 for the year ended June 30 reporting receipts from admissions, fundraisers, dues, concessions sales, and other categories; expenditures by payee; and beginning and ending balances.

EAST HARDIN MIDDLE SCHOOL

Concession Sales

We noted that reasonable profits on concession sales or the school bookstore were not verified using Inventory Control Worksheet (Form F-SA-5).

Management Response

We have now implemented using the Inventory Control Worksheet.

Faculty vs. Student Monies

During review of the Faculty Concessions Fund, the account was negative at year end due to more money being spent on faculty than was available. A transfer was made on June 30, 2006 to transfer money from the School Fund to the Faculty Concessions Fund in the amount of \$1,026.61 to cover the negative balance.

Management Response

We thought this was an acceptable transfer since the School Fund is money generated by other means and not student generated. We will make certain that only faculty-generated monies will be used on faculty only expenditures.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

RADCLIFF MIDDLE SCHOOL

Segregation of Duties

We noted that there was no segregation of duties regarding paying bills.

Management Response

The Principal does and will continue to approve all invoices. The School Treasurer, Office Manager/Bookkeeper, does and will continue to enter invoices. Every invoice paid will contain an invoice, signed PO and a receipt of goods/packing slip initialed by the purchaser confirming receipt except recurring bills. The Treasurer does and will continue to print checks. The receptionist and or records clerk or attendance clerk will match invoices to checks and mail checks.

Booster Club Officers

We noted that the band booster club did not submit the names of club officers to the principal at the beginning of the school year.

Management Response

The band instructor was on maternity leave. She is in the process of submitting those names to the Principal this year.

Booster Club Budget

We noted that the band booster club did not submit the annual booster club budget to the principal for the 2005/2006 school year.

Management Response

The band instructor was on maternity leave. She is in the process of submitting the Booster budget.

Booster Club Report

We noted that the band booster club did not submit an annual financial report with to the principal for the 2005/2006 school year.

Management Response

The band instructor was on maternity leave. She will submit an annual financial report to the principal.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

RADCLIFF MIDDLE SCHOOL – CONTINUED

Deposit of Funds

We noted that there were several instances of deposits not made on a timely basis.

Management Response

All monies over \$100.00 will be deposited daily. All monies under \$100.00 will be deposited as soon as \$100.00 has accumulated or once a week.

WEST HARDIN MIDDLE SCHOOL

Deposit of Funds

We noted several instances of deposits not made on a timely basis.

Management Response

WHMS will procure night deposit keys for the principal and assistant principal. All deposits will be made in a timely manner.

Concession Sales

We noted that reasonable profits on bookstore machine sales are not verified using the Inventory Control Worksheet (Form F-SA-5).

Management Response

We have ceased the sell of bookstore items by our Special Ed unit. There will be no further sale of bookstore items by any means at WHMS.

PARKWAY ELEMENTARY

Deposit of Funds

When reviewing receipts for the month of December 2005, we noted several instances of deposits not made on a timely basis.

Management Response

A delay with deposits resulted from delays in office receipt of the money. This has been addressed by requiring all money to be turned in daily by 1:00 p.m. Mail and pony items will be deposited when received.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

NEW HIGHLAND ELEMENTARY

Segregation of Duties

We noted that there was no segregation of duties regarding paying bills.

Management Response

The principal currently approves all invoices and the office manager enters invoices and prints check. We will begin the practice of having the clerk match invoices to checks and mailing checks.

Concession Sales

We noted that reasonable profits on pencil and paper machine sales are not verified using the Inventory Control Worksheet (Form F-SA-5).

Management Response

We were not aware that we needed to use the Inventory Control Worksheet, but will do so in future. Our office manager has counted the current notebook and pencil inventory and will keep the inventory control sheet up to date throughout this school year.

LINCOLN TRAIL ELEMENTARY

Approval of Invoices

We noted that vendor invoices do not have the approval and signature of the principal.

Management Response

The principal will sign the invoices at the time of payment.

VINE GROVE ELEMENTARY

Approval of Invoices

We noted that vendor invoices do not have the approval and signature of the principal.

Management Response

The principal will begin signing the invoices.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2006

CURRENT YEAR COMMENTS – CONTINUED

WOODLAND ELEMENTARY

Collection of Funds

We noted that money collected by a teacher/sponsor is not given to the school treasurer on the day it is collected.

Management Response

Before--- Teachers had been holding the money until they had all the money from their class in a locked file cabinet.

Now--- After meeting with the auditor, the procedure is to turn in money daily so it can be deposited.

HOWEVALLEY ELEMENTARY

Approval of Invoices

We noted that vendor invoices do not have the approval and signatures of the principal.

Administrator Response:

Principal will sign invoice for approval prior to payment.

BROWN STREET EDUCATION CENTER

Approval of Invoices

We noted that vendor invoices do not have the approval and signature of the principal.

Management Response

All invoices and payment approval will be signed by Mr. Joe Welch, the principal. This will take place immediately.

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



America Counts on CPAs

State Committee for School District Audits
Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hardin County Board of Education as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated August 18, 2006. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated May 30, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant accounting estimate is the estimate for sick leave.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, do not indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
August 18, 2006