



**Report on Audit of Financial Statements
and Supplementary Information
for the year ended June 30, 2013**



ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**HOPKINS COUNTY SCHOOL DISTRICT
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for the year ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of the Board of Education
Hopkins County School District
Madisonville, Kentucky

Report on the Financial Statements

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 Hopkins County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hopkins County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to 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 Hopkins County School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hopkins County School District's basic financial statements. The combining and individual nonmajor fund financial statements/schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

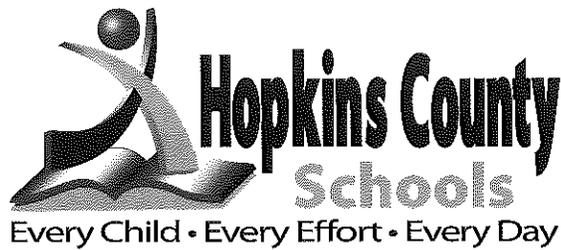
The combining and individual nonmajor fund financial statements/schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Hopkins County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hopkins County School District's internal control over financial reporting and compliance.

Alford, Nance & Jones, LLP

Alford, Nance & Jones, LLP
November 8, 2013



Eydie Tate
Director of Finance

Linda Q. Zellich, Superintendent

MANAGEMENT DISCUSSION & ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2013

FINANCIAL HIGHLIGHTS

- The Board of Education approved the tax rate to remain the same as the prior year at a tax rate of 60 cents per \$100 of assessed value for both real and personal property for fiscal year 2013. The rate generated \$1,148,927 in additional tax revenue compared to fiscal year 2012.
- Food Services participated in the Community Eligibility Option program that provided free breakfast and lunch for all elementary school children.
- The General Fund had \$52.6 million in revenue, which primarily consists of SEEK (State Funding) property and motor vehicle taxes. Excluding inter fund transfers there were \$54 million in General Fund Expenditures.
- All of Hopkins County Schools continued or implemented the PBIS program (Positive Behavioral Interventions and Supports).
- Rachel's Challenge, a program used to create a school environment of kindness and compassion, was board approved and implemented at all elementary, middle, and high schools for the 2012-2013 school year.
- The Board of Education approved an agreement with Hudson Motors for a sum of \$20,000, with each High School Athletic Department receiving \$10,000. The High Schools provided Hudson Motors with space to place vehicles on school grounds for home sporting events.
- The Board of Education approved to commence litigation against all persons and legal entities that have potential liability or responsibility for the construction defects in the Hopkins County Schools Career & Technology Center.
- The Board approved to cease construction on the current Career & Technical Center site and stop all remediation on the site. The Board further authorized negotiations for land concerning another location for the Career & Technology Center.
- The District issued Building Refunding Revenue Bonds, Series 2013 and refunded the outstanding Building Revenue Bonds, Series 2005, in January 2013.
- The District purchased four new school buses during the fiscal year.
- All schools participated in an energy savings competition where any school using less energy than the previous year will receive a monthly reward.

OVERVIEW OF FINANCIAL STATEMENTS

This analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

1. Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad review of the District's finances, in a manner similar to private-sector business. Government-wide financial statements outline functions of the District that is principally supported by property taxes and intergovernmental revenues (governmental activities) such as fixed assets and related debt. Governmental activities of the District include: instruction, support services, operation & maintenance of facilities, student transportation and operation of non-instructional services.

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

2. 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. Funds of the districts may be divided into three categories:

Fiduciary funds - trust funds established by benefactors to aid in student education, welfare and teacher support.

Proprietary funds - child care and food service operations are the district's only proprietary funds.

Governmental funds - all other activities in the District are included in the governmental funds.

3. Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the government's financial position. In the case of the District, assets exceeded liabilities by \$22.4 million as of June 30, 2013.

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

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

NET POSITION FOR THE PERIOD ENDING JUNE 30, 2013

The following is a comparison of condensed statement of net position for the current and prior years.

	<u>2012-2013FY</u>	<u>2011-2012FY</u>
Current Assets	\$ 17,706,755	\$ 20,571,426
Noncurrent Assets	51,507,296	58,595,670
TOTAL ASSETS	\$ 69,214,051	\$ 79,167,096
Current Liabilities	\$ 7,957,687	\$ 8,248,988
Noncurrent Liabilities	38,821,796	41,131,173
TOTAL LIABILITIES	\$ 46,779,483	\$ 49,380,161
Net Assets		
Investment in Capital Assets (Net of Debt)	\$ 11,668,078	\$ 15,575,074
Restricted for:		
Capital Projects	\$ 4,205,696	\$ 6,063,427
Debt Service	354,505	339,790
Technology	-	345,762
Unrestricted Fund Balance	6,206,289	7,462,882
Total Net Position	\$ 22,434,568	\$ 29,786,935

COMMENTS ON BUDGET COMPARISONS

- The District's total revenues for the fiscal year ended June 30, 2013 net of inter fund transfers, were \$67.2 million.
- The difference between the original and final budget figures occurred due to:

1. The budget for instruction was increased for curriculum and new programs.
2. The budget for instructional staff support and district administrative support services was increased due to step up in years of service and 1% salary increases.
3. Plant operation management expenditures increased due to increases in utilities and contract services.
4. Due to a history of unscheduled revenue adjustments for the SEEK program including various stimulus monies, the District adopted a very conservative approach to budgeting revenues.
5. Fewer budget adjustments were made compared to prior years between the tentative working budget and the final budget due to lack of funding sources stated above.

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2013.

	<u>2012-2013FY</u>	<u>2011-2012FY</u>
<u>GENERAL REVENUES</u>		
Property Taxes	\$ 13,473,163	\$ 12,324,236
Motor Vehicle Taxes	1,627,555	1,589,715
Unmined Mineral Taxes	378,573	363,681
Other Taxes	68,180	58,166
Intergovernmental - Local	113,379	388,777
Investment Earnings	74,574	79,152
Student Activities	8,268	1,557
Other Local Revenue	250,049	23,837
Gain (Loss) on Disposal of Fixed Assets	23,173	515,953
State and Formula Grants	37,880,533	38,532,657
<u>PROGRAM REVENUES</u>		
Charges for Services	797,559	1,158,960
Operations Grants and Contributions	9,240,904	11,063,460
Capital Grants and Contributions	3,226,554	3,232,853
TOTAL REVENUES	\$67,162,464	\$69,333,004
<u>EXPENSES</u>		
Instruction	\$ 39,351,551	\$ 37,319,990
Student Support	2,216,270	2,223,870
Instruction Staff Support	2,452,188	2,243,507
District Administrative Support	1,930,875	1,535,728
School Administrative Support	3,630,545	3,692,367
Business Support	1,590,699	1,599,166
Plant Operations and Maintenance	7,065,381	7,677,912
Student Transportation	3,701,460	3,985,891
Other Instructional	50,085	44,210
Impairment of Capital Assets	6,464,645	-
Community Service Activities	705,421	615,185
Interest on Long-Term Debt	1,312,549	2,197,733
Amortization of Bond Costs	69,263	95,958
Food Services	3,767,251	3,652,425
Child Care	206,648	213,964
TOTAL EXPENSES	\$74,514,831	\$67,097,906
Changes in Net Position	\$ (7,352,367)	\$ 2,235,098
Net Position, Beginning	\$ 29,786,935	\$ 27,551,837
Net Position, Ending	\$ 22,434,568	\$ 29,786,935

GENERAL FUND REVENUE

Total Revenues are \$52,624,777. The majority of revenue was derived from State Funding - \$37,894,425 or 72%, Local Funding makes up \$14,676,750 or 27%, and other revenues of \$53,602 or 1 %. Compared to prior year, State Funding has decreased by \$657,534 and Local Funding has grown by \$1,110,919 showing the increased demand on local support and the decline in State Funding that is growing each year.

BUDGET ALLOCATION

Approximately 79% of the general fund budget was expended for instruction/administration, some of which was directed by the Site Based Decision Making Councils. The budget included transportation for children with special needs and business support staff for the Special Education area.

SCHOOL ALLOCATION

Regular instruction accounts for approximately 82% of the school level expenditures. School level expenses include instruction, student support, district administration, school administration, and business administration. Total instruction includes regular instruction such as salaries and instructional support such as salaries for support personnel and classroom instructional assistants. Total instructional expenses are \$33,604,921 regular instruction and \$1,697,053 instructional support staff.

DISTRICT SUPPORT SERVICES ALLOCATION

Among the central support services expenses are Transportation \$3,813,135, Maintenance and Operation \$6,020,694, and District Administrative and Business Functions \$3,204,931.

FUND BALANCE

Beginning fund balance was \$7,534,669, Revenues \$52,624,777, Expenses \$53,954,831, and total other funding sources (uses) of \$404,855 for a net change in fund balance of \$(925,199) to reflect an ending fund balance for Fiscal Year 2012-13 of \$6,609,470.

BUSINESS TYPE ACTIVITIES

Food Services ended the year with Total Assets of \$1,403,991 and Total Liabilities of \$234,894 which left them with Total Net Position of \$1,169,097. This compares to Total Net Assets of \$1,227,571 for the previous year-end which is a decrease of \$58,474. The Food Service Fund had Total Operating Revenues of \$603,028 versus \$907,285 for the previous year. Total Nonoperating Revenues which include Federal and State Grants amounted to \$3,105,749 versus \$2,759,098 for the previous year.

OTHER FUNDS

Fund 2 contains all of the state and federal grants and has experienced decreases in funding due to the end of the American Recovery and Reinvestment Act federal stimulus grants. The decline in grant funding is expected to continue in future fiscal years with budget cuts in this area.

Fund 310 and 320 are the restricted building funds and serve as the cash source of our bond payments and major building renovations.

Fund 360 serves as the fund that contains and services the building and renovation projects.

Fund 400 is the fund that accumulates the bond payments for the fiscal year.

Fund 52 is our daycare operations. Three of our elementary schools operate child care programs in their buildings. They are self supporting and any profits are used at the child care center to fund instructional supplies and personnel.

BUDGETARY IMPLICATIONS

In Kentucky the public schools fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$2.75 million in contingency. The beginning fund balance for fiscal year 2014 is \$7.5 million. Significant changes that could impact the finances in future years include the Career and Technical Center and the related litigation, SEEK funding cuts across the state, sequestration and grant funding cuts, and property tax rates trending at the same rate as far back as fiscal year 2004-05. Questions regarding this report should be directed to Linda Q. Zellich, Superintendent (270) 825-6100 or Eydie L. Tate, Director of Finance (270) 825-6100 or by mail at 320 South Seminary Street, Madisonville, KY 42431.

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013**

Assets	Governmental Activities	Business- Type Activities	Total
Cash and cash equivalents	\$9,913,027	\$946,070	\$10,859,097
Receivables:			
Taxes	140,000		140,000
Accounts receivable	419,263	310,583	729,846
Intergovernmental – State	93,211		93,211
Intergovernmental – Indirect federal	903,301		903,301
Inventories	220,188	86,069	306,257
Prepaid expenses	58,815		58,815
Restricted investments	354,505		354,505
Restricted cash	4,261,723		4,261,723
Capital assets, net of accumulated depreciation	51,049,184	119,686	51,168,870
Bond deferred charges	498,631		498,631
less: accumulated amortization	(160,205)		(160,205)
Total Assets	<u>67,751,643</u>	<u>1,462,408</u>	<u>69,214,051</u>
Liabilities			
Accounts payable	238,367	112	238,479
Accrued payroll and related expenses	3,263,711	162,592	3,426,303
Accrued interest payable	259,578		259,578
Deferred revenue	1,193,711	21,112	1,214,823
Current portion of bond obligations	2,683,676		2,683,676
Current portion of accrued sick leave	129,858	4,970	134,828
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	37,155,542		37,155,542
Noncurrent portion of accrued sick leave	1,218,568	46,165	1,264,733
Insurance assessment	401,521		401,521
Total Liabilities	<u>46,544,532</u>	<u>234,951</u>	<u>46,779,483</u>
Net Position			
Net investment in capital assets	11,548,392	119,686	11,668,078
Restricted for:			
Capital projects	4,205,696		4,205,696
Debt service	354,505		354,505
Unrestricted	5,098,518	1,107,771	6,206,289
Total Net Position	<u>\$21,207,111</u>	<u>\$1,227,457</u>	<u>\$22,434,568</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$39,351,551	\$53,602	\$4,181,259		(\$35,116,690)		(\$35,116,690)
Support services:							
Student	2,216,270		198,962		(2,017,288)		(2,017,288)
Instruction staff	2,452,188		753,553		(1,698,635)		(1,698,635)
District administrative	1,930,875				(1,930,875)		(1,930,875)
School administrative	3,630,545				(3,630,545)		(3,630,545)
Business	1,590,899		4,574		(1,586,325)		(1,586,325)
Plant operation and maintenance	7,065,381		69,644		(6,995,737)		(6,995,737)
Student transportation	3,701,460		184,000		(3,517,460)		(3,517,460)
Other instructional	50,085				(50,085)		(50,085)
Facilities acquisition and construction		706		\$2,914,251	2,914,957		2,914,957
Impairment of capital assets	6,464,645				(6,464,645)		(6,464,645)
Community service activities	705,421				(15,307)		(15,307)
Interest on long-term debt	1,312,549			690,114	(1,000,246)		(1,000,246)
Amortization of bond costs	69,263			312,303	(69,263)		(69,263)
Total governmental activities	70,540,932	54,308	6,082,126	3,226,554	(61,177,944)	-	(61,177,944)
Business-Type Activities:							
Food service	3,767,251	603,028	3,102,317		(\$61,906)		(61,906)
Child care	206,648	140,223	56,461		(9,964)		(9,964)
Total business-type activities	3,973,899	743,251	3,158,778	-	(71,870)	(71,870)	(71,870)
Total primary government	\$74,514,831	\$797,559	\$9,240,904	\$3,226,554	(61,177,944)	(71,870)	(61,249,814)
General Revenues:							
Taxes:							
Property taxes					13,473,163		13,473,163
Motor vehicle taxes					1,627,555		1,627,555
Unimproved mineral taxes					378,573		378,573
Other					68,180		68,180
Intergovernmental - local					113,379		113,379
Investment earnings					70,757	3,817	74,574
Student activities					8,268		8,268
Other local revenue					250,049		250,049
Gain (loss) on disposal of capital assets					23,173		23,173
State and formula grants					37,880,533		37,880,533
Change in net position					(7,284,314)	(68,053)	(7,352,367)
Net position, July 1, 2012					29,491,425	1,295,510	29,786,935
Net position, June 30, 2013					\$21,207,111	\$1,227,457	\$22,434,568

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

**HOPKINS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$9,658,472	\$254,555			\$9,913,027
Receivables:					
Taxes	140,000				140,000
Accounts receivable	419,263				419,263
Intergovernmental - State					-
Intergovernmental - Indirect federal		903,301			903,301
Due from other funds					-
Prepaid expenses	3,500			\$55,315	58,815
Restricted investments				354,505	354,505
Restricted cash	56,027		\$4,205,696		4,261,723
Total Assets	<u>\$10,277,262</u>	<u>\$1,157,856</u>	<u>\$4,205,696</u>	<u>\$409,820</u>	<u>\$16,050,634</u>
Liabilities					
Accounts payable	\$223,321	\$15,047			\$238,368
Accrued payroll and related expenses	2,805,335	458,376			3,263,711
Retainage payable					-
Current portion of accrued sick leave	129,858				129,858
Deferred revenue	509,278	684,433			1,193,711
Due to other funds					-
Total Liabilities	<u>3,667,792</u>	<u>1,157,856</u>	<u>-</u>	<u>-</u>	<u>4,825,648</u>
Fund Balances					
Nonspendable:					
Prepaid expenses	3,500			\$55,315	58,815
Restricted:					
Capital projects			\$4,205,696		4,205,696
Debt service				354,505	354,505
Committed:					
Site-base carryforward	203,616				203,616
Assigned:					
Encumbrances	179,088				179,088
Unassigned:					
General fund	6,223,266				6,223,266
Total Fund Balances	<u>6,609,470</u>	<u>-</u>	<u>4,205,696</u>	<u>409,820</u>	<u>11,224,986</u>
Total Liabilities and Fund Balances	<u>\$10,277,262</u>	<u>\$1,157,856</u>	<u>\$4,205,696</u>	<u>\$409,820</u>	<u>\$16,050,634</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013**

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

Total fund balance - governmental funds	\$11,224,986
Inventory is not reported in this fund financial statement because the supplies are not current financial resources, but it is reported in the statement of net position	220,188
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 position.	51,049,184
Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.	431,637
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, insurance assessment 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 position.	<u>(41,718,884)</u>
Net position of governmental activities	<u><u>\$21,207,111</u></u>

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$12,196,301			\$1,276,862	\$13,473,163
Motor vehicle	1,627,555				1,627,555
Unmined mineral	378,573				378,573
Other	68,180				68,180
Earnings on investments	38,807	\$1,755	\$14,425	15,770	70,757
Student activities	3,200	5,068			8,268
Other local revenues	250,755				250,755
Intergovernmental - Local	113,379				113,379
Intergovernmental - State	37,894,425	1,524,149	19,000	3,207,554	42,645,128
Intergovernmental - Indirect federal		4,451,094			4,451,094
Intergovernmental - Direct federal	53,602	106,883			160,485
Total revenues	52,624,777	6,088,949	33,425	4,500,186	63,247,337
Expenditures:					
Current:					
Instruction	33,604,921	5,163,866			38,768,787
Support services:					
Student	1,930,348	198,982			2,129,330
Instruction staff	1,697,053	753,553			2,450,606
District administrative	1,639,071				1,639,071
School administrative	3,609,068				3,609,068
Business	1,565,860	4,574			1,570,434
Plant operation and maintenance	6,020,694	69,644			6,090,338
Student transportation	3,813,135	184,000			3,997,135
Other instructional	50,085				50,085
Community service activities		690,114			690,114
Capital outlay:					
Facilities acquisition and construction			1,094,818		1,094,818
Debt service:					
Principal	23,673			3,250,000	3,273,673
Interest	923			1,329,153	1,330,076
Issuance costs				23,615	23,615
Total expenditures	53,954,831	7,064,733	1,094,818	4,602,768	66,717,150
Excess (deficiency) of revenues over (under) expenditures	(1,330,054)	(975,784)	(1,061,393)	(102,582)	(3,469,813)
Other Financing Sources (Uses)					
Proceeds from bonds issued				1,215,000	1,215,000
Payment to refunded bond escrow agent				(1,173,618)	(1,173,618)
Premium on bonds issued					-
Discount on bonds issued				(14,810)	(14,810)
Proceeds from disposal of fixed assets	156,628				156,628
Transfers in	965,971	630,022		2,978,367	4,574,360
Transfers out	(717,744)		(796,338)	(3,060,278)	(4,574,360)
Total other financing sources (uses)	404,855	630,022	(796,338)	(55,339)	183,200
Net change in fund balance	(925,199)	(345,762)	(1,857,731)	(157,921)	(3,286,613)
Fund balance, July 1, 2012	7,534,669	345,762	6,063,427	567,741	14,511,599
Fund balance, June 30, 2013	\$6,609,470	\$0	\$4,205,696	\$409,820	\$11,224,986

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

**HOPKINS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

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

Net change in fund balances - total governmental funds	\$ (3,286,613)
Inventory is expensed under the purchases method in the fund financial statements, but must be reported as assets in the statement of net position	220,188
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 exceed (are less than) depreciation expense for the year.	(458,731)
The proceeds for the issuance of bonds and capital leases provide current financial resources and are reported in this fund financial statement, but they are presented as liabilities in the statement of net position.	(1,215,000)
Bond issuance costs, call premiums and discounts are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and amortized over the remaining life of the bonds. The difference is the amount by which the actual costs exceeds (are less than) amortization expenses for the year.	(30,838)
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to increase (decrease) net position.	(161,282)
Bond and capital lease payments, are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.	3,273,673
Payments to bond escrow agents are recognized as other financing uses in the fund financial statements, but are reductions in liabilities in the statement of net position.	1,173,618
Accruals of intergovernmental - state revenue related to interest paid on-behalf of the District by the state on long-term debt is not reported in this fund financial statement, but is presented as a receivable in the statement of net position.	(13,892)
Accruals of interest and noncurrent sick leave do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental fund statements.	80,729
Impairments of capital assets do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental fund statements.	(6,464,645)
Accrual of insurance assessment does not require the use of current financial resources and, therefore is not reported as an expenditure in the governmental fund statements.	(401,521)
Change in net position of governmental activities	<u>\$ (7,284,314)</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Food Service Fund	Child Care Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$887,653	\$58,417	\$946,070
Inventory	86,069		86,069
Accounts receivable			
Intergovernmental - Indirect federal	218,219		218,219
Other	92,364		92,364
Total current assets	<u>1,284,305</u>	<u>58,417</u>	<u>1,342,722</u>
Noncurrent assets			
Capital assets	1,695,568		1,695,568
Less: Accumulated depreciation	<u>(1,575,882)</u>		<u>(1,575,882)</u>
Total noncurrent assets	<u>119,686</u>	<u>-</u>	<u>119,686</u>
Total assets	<u>1,403,991</u>	<u>58,417</u>	<u>1,462,408</u>
Liabilities			
Current liabilities			
Accounts payable	55	57	112
Accrued payroll and related expenses	162,592		162,592
Current portion - accrued sick leave	4,970		4,970
Deferred revenue	21,112		21,112
Total current liabilities	<u>188,729</u>	<u>57</u>	<u>188,786</u>
Noncurrent liabilities			
Accrued sick leave	46,165		46,165
Total noncurrent liabilities	<u>46,165</u>	<u>-</u>	<u>46,165</u>
Total liabilities	<u>234,894</u>	<u>57</u>	<u>234,951</u>
Net Position			
Net investment in capital assets	119,686		119,686
Unrestricted	1,049,411	58,360	1,107,771
Total net position	<u>\$1,169,097</u>	<u>\$58,360</u>	<u>\$1,227,457</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Service Fund	Child Care Fund	Total
Operating Revenues:			
Lunchroom sales	\$504,712		\$504,712
Community service activities		\$140,223	140,223
Other operating revenues	98,316		98,316
Total operating revenues	603,028	140,223	743,251
Operating Expenses:			
Salaries and wages	1,145,614	122,844	1,268,458
Employee benefits	672,387	71,628	744,015
Contract services	85,361	2,828	88,189
Materials and supplies	1,837,832	9,348	1,847,180
Depreciation	24,960		24,960
Other operating expenses	1,097		1,097
Total operating expenses	3,767,251	206,648	3,973,899
Operating loss	(3,164,223)	(66,425)	(3,230,648)
Nonoperating Revenues (Expenses):			
Federal grants	2,718,091		2,718,091
State grants	384,226	56,461	440,687
Interest income	3,432	385	3,817
Total nonoperating revenues (expenses)	3,105,749	56,846	3,162,595
Change in net position	(58,474)	(9,579)	(68,053)
Net position, July 1, 2012	1,227,571	67,939	1,295,510
Net position, June 30, 2013	\$1,169,097	\$58,360	\$1,227,457

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Service Fund	Child Care Fund	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$452,400		\$452,400
Community service activities		\$140,223	140,223
Other operating activities	98,316		98,316
Cash paid to/for:			
Employees	(1,406,845)	(157,679)	(1,564,524)
Supplies	(1,656,440)	(9,459)	(1,665,899)
Other activities	(85,361)	(2,828)	(88,189)
Net cash provided (used) by operating activities	(2,597,930)	(29,743)	(2,627,673)
Cash Flows from Noncapital Financing Activities			
Government grants	2,364,790	19,668	2,384,458
Insurance proceeds			-
Transfer in from other fund			-
Net cash provided (used) by noncapital financing activities	2,364,790	19,668	2,384,458
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(1,169)		(1,169)
Net cash provided (used) by capital and related financing activities	(1,169)	-	(1,169)
Cash Flows from Investing Activities			
Receipt of interest income	3,432	385	3,817
Net cash provided (used) by investing activities	3,432	385	3,817
Net increase (decrease) in cash and cash equivalents	(230,877)	(9,690)	(240,567)
Balances, beginning of year	1,118,530	68,107	1,186,637
Balances, end of year	\$887,653	\$58,417	\$946,070
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	(\$3,164,223)	(\$66,425)	(\$3,230,648)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	24,960		24,960
On-behalf payments	350,475	36,793	387,268
Commodities received	187,931		187,931
Change in assets and liabilities			
Receivables - other	(45,945)		(45,945)
Inventory	(5,255)		(5,255)
Accounts payable	(188)	(111)	(299)
Accrued payroll & related expense	85,214		85,214
Accrued sick leave	(24,533)		(24,533)
Deferred revenue	(6,366)		(6,366)
Net cash provided (used) by operating activities	(\$2,597,930)	(\$29,743)	(\$2,627,673)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$187,931		\$187,931
Benefits paid by state of Kentucky on behalf of District	\$350,475	\$36,793	\$387,268

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

**HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013**

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$709,748
Accounts receivable	<u>2,340</u>
Total assets	<u><u>\$712,088</u></u>
Liabilities	
Accounts payable	\$6,797
Due to student groups	<u>705,291</u>
Total liabilities	<u><u>\$712,088</u></u>

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

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

1. Reporting Entity

The Hopkins County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hopkins County School District (District). The Board 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.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Hopkins 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.

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The Hopkins County School District has one blended component unit.

Blended Component Unit:

Hopkins County School District Finance Corporation - In 1989, the Hopkins County, Kentucky, Board of Education resolved to authorize the establishment of the Hopkins County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Hopkins County Board of Education also comprise the Corporation's Board of Directors.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the 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. The effect of interfund activity has been substantially removed from these statements.

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 government-wide 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.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

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 financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District had the following funds:

Governmental Fund Types

- 1) 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.
- 2) The Special Revenue (Grant) Funds account 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 as referenced in the table of contents. This is a major fund of the District.
- 3) 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 a proprietary fund).
 - (a) 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 and for the corresponding debt service.
 - (b) The Facility Support Program of Kentucky (FSPK) Fund 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 and for the corresponding debt service.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

Governmental Fund Types, continued

- (c) 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.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has two enterprise funds: the School Food Service Fund and the Child Care Fund.

- 1) The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.
- 2) The Child Care Fund is used to account for child care activities in its three licensed child care centers.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The District has no trust funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

(b) Basis of Accounting

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(b) Basis of Accounting, continued

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; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) 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 they can be recognized.

(c) 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 position but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective 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. A capitalization threshold applies to tangible property costing \$5,000 or more and has a useful life of more than one (1) year, all computers regardless of value, and theft sensitive items that maybe identified by the District. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

(d) Cash and Cash Equivalents/Restricted Cash/Investments

For purposes of the Statement of Cash Flows in the Proprietary Funds, the Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the general fund for the flexible spending account and in the capital projects funds per state requirements. Investments are restricted in the debt service fund per debt agreement.(See Notes 4 and 5)

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(d) Cash and Cash Equivalents/Restricted Cash/Investments

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC and NCUSIF coverage terms and limitations. (See Note 4)

State statutes authorize the District to invest in obligations of the U.S. Treasury, U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(e) Inventories/Commodities

Supplies and materials are charged to expenditures when purchased at the fund statement level, with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Similarly, due to the economic resources measurement focus, bus garage supply inventories are reported as an asset on the District-wide Statement of Net Position. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method.

For the purposes of the statement of cash flows, federal grants received does not include noncash commodities received in the amount of \$187,931.

(f) 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. Bond discounts and premiums are netted against the bond principal and issuance costs are recorded as deferred charges in the government-wide financial statements. Bond discounts, premiums and issuance costs are amortized on a straight-line basis over the life of the bonds.

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, the noncurrent portion of capital leases, 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.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(g) Net Position and Fund Balance

District-Wide Financial Statements

Net position on the Statement of Net Position include the following:

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Projects/Debt Service – The components of net position that report the financial resources restricted to pay for construction activities (capital projects) or related debt service.

Unrestricted – The difference between the assets and liabilities that is not reported in Net Investment in Capital Assets or Net Position Restricted for Capital Projects/Debt Service.

Governmental Fund Financial Statements

In July 2010, the District adopted Statement of Governmental Accounting standards No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, in the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned fund balance. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable fund balances are those amounts that cannot be spent because they are either: (1) generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts or (2) amounts that are required to be maintained intact, such as the principal of a permanent fund.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which results in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

2. Summary of Significant Accounting Policies, continued

(g) Net Position and Fund Balance, continued

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

(h) 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 as 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.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(i) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Compensated Absences (Accrued Sick Leave)

The Hopkins County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience. Separation of employment for any reason other than retirement results in the employee forfeiting all accumulated sick and personal leave.

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

(k) Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances is provided for at each year-end. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

3. Property Taxes

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the Hopkins County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 60.0 cents per \$100 of assessed valuation on real estate and 60.0 on personal property, of which 5.9 cents is for participation in the Facility Support Program, and 54.7 cents per \$100 of assessed valuation on motor vehicles.

4. Deposits and Investments

At June 30, 2013, the carrying amount of the District's deposits (excluding petty cash of \$100) was \$16,184,973 and the bank balance was \$18,172,941. Of the bank balances, \$1,292,135 was insured by federal depository insurance, \$16,845,076 was covered by collateral held by the pledging bank's agent and \$35,730 was federally insured by the National Credit Union Share Insurance Fund.

The District's deposits at June 30, 2013 consisted of the following:

	Bank Balance	Book Balance
Old National Bank - demand	\$ 130,581	\$ 128,244
US Bank - demand	301	209
Fifth Third Bank - demand	10,130,848	10,082,145
Hopkins County Credit Union - demand	35,722	35,730
First United Bank - demand	7,520,984	5,584,140
The Cecilian Bank - certificate of deposit	354,505	354,505
	<u>\$ 18,172,941</u>	<u>16,184,973</u>
Restricted cash		(4,261,723)
Restricted investments		<u>(354,505)</u>
Unrestricted cash and cash equivalents		<u>\$ 11,568,745</u>
Reported in the financial statements:		
Governmental funds: cash and cash equivalents (excluding petty cash of \$100)		\$ 9,912,927
Proprietary funds: cash and cash equivalents		946,070
Fiduciary funds: cash and cash equivalents		<u>709,748</u>
		<u>\$ 11,568,745</u>

5. Restricted Cash and Investments

Restricted cash at June 30, 2013 consists of the following:

General Fund	
<u>Flexible Spending Account</u>	\$ 56,027
<u>Capital Projects Funds</u>	
<u>Construction Fund</u>	<u>4,205,696</u>
Total Restricted Cash	<u>\$ 4,261,723</u>

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

5. Restricted Cash and Investments, continued

Restricted investments at June 30, 2013 consists of the following:

Debt Service Fund (QZAB certificate of deposit) \$ 354,505

6. Capital Assets

During the year ended June 30, 2013, the following changes occurred in capital assets:

Governmental Activities:	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Not depreciated:				
Land and land improvements	\$ 2,326,268	\$ -	\$ 280,819	\$ 2,045,449
Construction in progress	5,257,844	1,586,979	6,794,823	50,000
Totals not being depreciated	<u>7,584,112</u>	<u>1,586,979</u>	<u>7,075,642</u>	<u>2,095,449</u>
Depreciated:				
Buildings and improvements	67,802,650	610,997	-	68,413,647
Technology equipment	6,535,857	338,234	549,924	6,324,167
Vehicles	7,059,357	479,064	301,437	7,236,984
General equipment	4,739,034	-	199,970	4,539,064
Totals at historical cost	<u>86,136,898</u>	<u>1,428,295</u>	<u>1,051,331</u>	<u>86,513,862</u>
Less accumulated depreciation:				
Buildings and improvements	22,983,756	1,337,011	-	24,320,767
Technology equipment	4,146,864	782,603	451,441	4,478,026
Vehicles	4,506,277	563,424	301,437	4,768,264
General equipment	3,978,098	179,970	164,998	3,993,070
Total accumulated depreciation	<u>35,614,995</u>	<u>2,863,008</u>	<u>917,876</u>	<u>37,560,127</u>
Depreciated assets, net	<u>50,521,903</u>	<u>(1,434,713)</u>	<u>133,455</u>	<u>48,953,735</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 58,106,015</u>	<u>\$ 152,266</u>	<u>\$ 7,209,097</u>	<u>\$ 51,049,184</u>
Business-Type Activities:				
Depreciated:				
General equipment	\$ 1,679,282	\$ 1,169	\$ -	\$ 1,680,451
Technology equipment	15,117	-	-	15,117
Totals at historical cost	<u>1,694,399</u>	<u>1,169</u>	<u>-</u>	<u>1,695,568</u>
Less accumulated depreciation:				
General equipment	1,539,409	24,312	-	1,563,721
Technology equipment	11,513	648	-	12,161
Total accumulated depreciation	<u>1,550,922</u>	<u>24,960</u>	<u>-</u>	<u>1,575,882</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 143,477</u>	<u>\$ (23,791)</u>	<u>\$ -</u>	<u>\$ 119,686</u>

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

6. Capital Assets, continued

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 562,301
Support services:	
Student	86,940
Instruction staff	1,582
District administrative	291,804
School administrative	21,477
Business	20,265
Plant operation and maintenance	1,459,755
Student transportation	403,577
Community service activities	<u>15,307</u>
 Total depreciation expense	 <u>\$ 2,863,008</u>

7. Long-Term Debt

Revenue Bonds

The District issues bonds to provide funds for the acquisition and construction of major capital facilities and improvements. The original amount of the issue, the issue dates and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1996 (PES)	\$ 465,000	4.30% - 5.00%
Issue of 1999-B (Refunding)	2,190,000	4.05% - 4.25%
Issue of 2002-A (Refunding)	2,625,000	1.50% - 3.45%
Issue of 2002-B (Refunding)	2,915,000	1.50% - 3.45%
Issue of 2003 (Energy)	2,050,000	1.10% - 3.60%
Issue of 2004 (BSMS)	10,000,000	1.90% - 4.375%
Issue of 2004 (QZAB)	500,000	N/A (tax credits, in lieu of)
Issue of 2005 (BSMS)	1,800,000	2.85% - 4.25%
Issue of 2006 (PES)	1,545,000	3.40% - 4.00%
Issue of 2007 (Refunding) (MNHHS)	3,605,000	3.70% (term)
Issue of 2008 (Refunding) (GES)	1,780,000	2.50% - 3.25%
Issue of 2009 (Energy)	5,150,000	2.00% - 4.50%
Issue of 2009 (Refunding-WBES,EES,HES,WHS)	2,705,000	2.00% - 3.50%
Issue of 2011A (Career and Technical Center)	9,030,000	2.00% - 4.625%
Issue of 2011B (Refunding 2001)	9,320,000	2.00% - 3.00%
Issue of 2012 (Refunding 2004-BSMS)	9,150,000	1.00% - 2.375%
Issue of 2013 (Refunding 2005-BSMS)	1,215,000	1.70% - 2.10%

Hopkins County School Building Revenue Bonds, Series of 1996, dated February 1, 1996, in the amount of \$465,000, were issued for the purpose of financing the cost, not otherwise provided, of the construction of a school building project, consisting of the additions and renovations of Pride Avenue Elementary School.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 1999B, dated April 1, 1999, in the amount of \$2,190,000 were issued to (i) provide for the payment of the interest on the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1992-A, dated September 1, 1992, scheduled to mature on and after September 1, 2006 (the "Refunded Bonds"), on each March 1 and September 1 through September 2, 2002; (ii) provide for the redemption of the Refunded Bonds on September 1, 2002, at a redemption price of 102% of the principal amount redeemed; and (iii) provide for the payment of the costs of issuance incurred in connection with the Bonds. Net proceeds of \$2,136,510 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

7. Long-Term Debt, continued

Revenue Bonds, continued

resources for the future debt service payments on \$1,995,000 of refunded debt. As a result, \$1,995,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1992A were considered to be defeased and the liability was removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next fourteen years by \$144,871 and resulted in an economic gain of \$109,589. In September, 2002, the remaining balance of the defeased 1992A bonds were redeemed.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2002-A dated September 1, 2002 in the amount of \$2,625,000, were issued for the purpose of advance refunding and redeeming the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1993-A, dated February 1, 1993, scheduled to mature on and after February 1, 2004 by providing for the payment of the interest on the Bonds of 1993-A due and payable on and prior to February 1, 2004, and by calling for prior redemption on February 1, 2004 (the first permissible redemption date thereof), all of the Series of 1993-A bonds scheduled to mature on and subsequent to February 1, 2004. The redemption price is 102% resulting in a redemption premium of \$49,500. Net proceeds of \$2,577,796 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$3,343,179 of refunded debt. As a result, \$2,475,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1993-A are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$242,304 and resulted in an economic gain of \$209,031. In February, 2004 the remaining balance of the 1993-A bonds were redeemed.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2002-B dated September 1, 2002 in the amount of \$2,915,000, were issued for the purpose of advance refunding and redeeming the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1993-B dated June 1, 1993, scheduled to mature on and after June 1, 2006 by providing for the payment of the interest on the Bonds of 1993-B due and payable on and prior to June 1, 2004, and by calling for prior redemption on June 1, 2004 (the first permissible redemption date thereof), all of the Series of 1993-B bonds scheduled to mature on and subsequent to June 1, 2006. The redemption price is 102% resulting in a redemption premium of \$53,900. Net proceeds of \$2,859,430 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$3,791,408 of refunded debt. As a result, \$2,695,000 of the Hopkins County school District Finance Corporation School Building Revenue Bonds, Series 1993-B are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$277,310 and resulted in an economic gain of \$208,265. In June, 2004, the remaining balance of the 1993-B bonds were redeemed.

Hopkins County School District Finance Corporation School Energy Conservation Revenue Bonds, Series 2003 dated February 1, 2003 in the amount of \$2,050,000, were issued for the acquisition and installation of energy conservation measures at various schools in the Hopkins County School District.

Hopkins County School District Finance Corporation School Building Revenue Bonds, Series of 2004, dated October 15, 2004 in the amount of \$10,000,000 were issued for the purpose of financing the cost, not otherwise provided, of the construction of a school building project consisting of the additions and renovations of Browning Springs Middle School.

Hopkins County School District Finance Corporation Qualified Zone Academy Bonds, Series of 2004, dated December 21, 2004 in the amount of \$500,000 were issued for the purpose of providing funds to pay the cost, not otherwise provided, of renovating the Browning Springs Middle School. A certificate of deposit was purchased (currently \$282,699) bearing interest at 4.55% which will mature in December, 2020. Interest earned is reinvested annually into the certificate of deposit. The maturity and interest rate were determined in order to yield an amount at maturity of \$500,000, sufficient to retire the \$500,000 QZAB bond upon its maturity.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

7. Long-Term Debt, continued

Revenue Bonds, continued

Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2005 dated August 1, 2005 in the amount of \$1,800,000 were issued for the purpose of financing the cost, not otherwise provided, of the construction of a school construction project consisting of the renovation and improvements to Browning Springs Middle School.

Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2006 dated November 1, 2006 in the amount of \$1,545,000 were issued for the purpose of financing the cost, not otherwise provided, of the construction of a school construction project consisting of the renovation and additions to Pride Elementary School.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2007, dated December 18, 2007, in the amount of \$3,605,000 were issued to (i) provide for the payment of the interest on the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1998-A, dated January 1, 1998, scheduled to mature on and after January 1, 2010 (the "Refunded Bonds"), on each January 1 and July 1 through January 1, 2023; (ii) provide for the redemption of the Refunded Bonds on January 1, 2010, at a redemption price of 102% of the principal amount redeemed; and (iii) provide for the payment of the costs of issuance incurred in connection with the Bonds. This refunding was undertaken to reduce total debt service payments over the next fifteen years by \$233,655 and resulted in an economic gain of \$182,996. In January, 2010, the remaining balance of the 1998-A bonds were redeemed.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2008 dated March 26, 2008 in the amount of \$1,780,000, were issued for the purpose of refunding the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 1997, dated June 1, 1997, scheduled to mature on and after June 1, 2008 (the "Refunded Prior Bonds"), which have been paid in full. This refunding was undertaken to reduce total debt service payments over the next ten years by \$130,920 and resulted in an economic gain of \$115,873.

Hopkins County School District Finance Corporation Energy Conservation Revenue Bonds, Series 2009 dated May 5, 2009 in the amount of \$5,150,000, were issued for the acquisition, installation, and construction of energy conservation measures at various schools in the Hopkins County School District.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2009, dated May 20, 2009, in the amount of \$2,705,000 were issued to (i) provide for refunding of the Hopkins County School District Finance Corporation School Building Revenue Bonds Series 1999-A, at a redemption price of 101% of the principal amount redeemed; and (ii) provide for the refunding of the Hopkins County School District Finance Corporation School Building Revenue Bonds Series 2000, at a redemption price of 101%. Net proceeds of \$843,531 were placed in an escrow account from which State and Local Government Securities (SLGS) were purchased for the purpose of generating resources for the future debt service payments on \$795,000 of refunded debt. As a result, \$795,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2000 were considered to be defeased and the liability was removed from long-term debt. This refunding (1999-A) and advance refunding (2000) was undertaken to reduce total debt service payment over the next eleven years by \$230,031 and resulted in an economic gain of \$195,233. The outstanding balance of the defeased 2000 bonds was \$600,000 as of June 30, 2013.

Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2011A dated April 5, 2011, in the amount of \$9,030,000 were issued to finance the construction of a new single story, approximately 39,700 square foot, career and technology center.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2011B, dated April 19, 2011, in the amount of \$9,320,000, were issued for the purpose of refunding the outstanding Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2001, dated January 15, 2001, scheduled to mature on and after June 1, 2012. The redemption price is 101% resulting in a redemption call premium of \$90,850. This refunding was undertaken to reduce total debt service payments

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

7. Long-Term Debt, continued

Revenue Bonds, continued

over the next nine years by \$969,523 and resulted in an economic gain of \$889,520. In June, 2012 the remaining balance of the defeased 2001 bonds were redeemed.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2012 dated February 7, 2012 in the amount of \$9,150,000, were issued for the purpose of refunding through escrow a portion of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2004, dated October 15, 2004, scheduled to mature on and after October 1, 2020 (the "Bonds of 2004"), issued by the Corporation by providing for the payment of the interest on the Bonds of 2004 due and payable on and prior to October 1, 2014, and by calling for redemption on October 1, 2014 (the first permissible date at a redemption price of 100%), all of the Bonds of 2004 scheduled to mature on and subsequent to October 1, 2020, in order to obtain substantial savings in interest costs. Net proceeds of \$8,941,276 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$9,007,506 of refunded debt. As a result, \$7,990,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2004 are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next thirteen years by \$655,956 and resulted in an economic gain of \$583,834. The outstanding balance of the defeased 2004 bonds was \$7,990,000 as of June 30, 2013.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2013 dated February 5, 2013 in the amount of \$1,215,000, were issued for the purpose of refunding through escrow a portion of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2005, dated August 1, 2005, scheduled to mature on and after August 1, 2016 (the "Bonds of 2005"), issued by the Corporation by providing for the payment of the interest on the Bonds of 2005 due and payable on and prior to August 1, 2015, and by calling for redemption on August 1, 2015 (the first permissible date at a redemption price of 100%), all of the Bonds of 2005 scheduled to mature on and subsequent to August 1, 2016, in order to obtain substantial savings in interest costs. Net proceeds of \$1,173,618 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$1,372,220 of refunded debt. As a result, \$1,070,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2005 are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$67,695 and resulted in an economic gain of \$61,516. The outstanding balance of the defeased 2005 bonds was \$1,070,000.

Participation Agreements

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (KSFCC). The Commission was created by the Kentucky legislature for the purpose of assisting local school districts in meeting school construction needs. Receipts from the KSFCC are recorded as intergovernmental-state revenue in the Debt Service Fund. 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 (See Note 12).

Insurance Assessment

The Kentucky School Boards Insurance Trust (KSBIT) has notified all past and present members that they will be assessed to make up for a growing deficit in the Workers' Compensation Self-Insurance and/or Property and Liability pools. The District has recorded a long-term liability of \$401,521 (\$10,161 for Property and Liability coverage and \$391,360 for Workers' Compensation) using preliminary assessments based on a best estimate of KSBIT. No payment terms have been established as of June 30, 2013.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

7. Long-Term Debt, continued

Maturities

The annual debt service requirements to maturity for bonds payable as of June 30, 2013 are as follows:

	Hopkins County Board of Education		School Facilities Construction Commission		Total Interest	Total Principal	Total Requirement
	Interest	Principal	Interest	Principal			
2013-14	\$ 963,378	\$ 2,026,846	\$ 295,292	\$ 703,154	\$ 1,258,670	\$ 2,730,000	\$ 3,988,670
2014-15	915,684	2,117,749	275,445	727,251	1,191,129	2,845,000	4,036,129
2015-16	918,459	1,973,692	254,181	751,308	1,172,640	2,725,000	3,897,640
2016-17	807,057	2,039,552	188,965	735,448	996,022	2,775,000	3,771,022
2017-18	746,892	2,109,169	168,957	625,831	915,849	2,735,000	3,650,849
2018-19	683,130	2,177,427	151,628	642,573	834,758	2,820,000	3,654,758
2019-20	932,044	2,390,063	132,916	449,937	1,064,960	2,840,000	3,904,960
2020-21	517,888	2,974,776	120,370	345,224	638,258	3,320,000	3,958,258
2021-22	451,667	2,556,599	110,611	353,401	562,278	2,910,000	3,472,278
2022-23	378,562	2,636,963	98,797	368,037	477,359	3,005,000	3,482,359
2023-24	294,906	2,726,942	86,425	373,058	381,331	3,100,000	3,481,331
2024-25	218,394	2,816,619	73,753	388,381	292,147	3,205,000	3,497,147
2025-26	162,402	2,040,784	60,405	404,216	222,807	2,445,000	2,667,807
2026-27	76,456	1,111,668	47,788	268,332	124,244	1,380,000	1,504,244
2027-28	30,022	352,471	38,410	187,529	68,432	540,000	608,432
2028-29	15,876	367,397	30,204	197,603	46,080	565,000	611,080
2029-30	1,118	11,771	21,312	223,229	22,430	235,000	257,430
2030-31	574	12,411	10,988	237,589	11,562	250,000	261,562
TOTALS	\$ 8,114,509	\$ 32,442,899	\$ 2,166,447	\$ 7,982,101	\$ 10,280,956	\$ 40,425,000	\$ 50,705,956

During the year ended June 30, 2013, the following changes occurred in the long-term debt:

Governmental activities:	Balance			Balance June 30, 2013	Due Within One Year
	July 1, 2012	Additions	Reductions		
Revenue bonds:					
Issue of 1996 (PES)	\$ 105,000	\$ -	\$ 10,000	\$ 95,000	\$ 25,000
Issue of 1999B (Refunding)	335,000	-	335,000	-	-
Issue of 2002A (Refunding)	300,000	-	300,000	-	-
Issue of 2002B (Refunding)	385,000	-	385,000	-	-
Issue of 2003 (Energy)	580,000	-	185,000	395,000	195,000
Issue of 2004 (BSMS)	1,480,000	-	85,000	1,395,000	25,000
Issue of 2004 (QZAB)	500,000	-	-	500,000	-
Issue of 2005 (BSMS)	1,390,000	-	1,145,000	245,000	80,000
Issue of 2006 (PES)	1,250,000	-	65,000	1,185,000	65,000
Issue of 2007 (Refunding)	3,155,000	-	165,000	2,990,000	170,000
Issue of 2008 (Refunding)	950,000	-	180,000	770,000	185,000
Issue of 2009 (Energy)	4,550,000	-	205,000	4,345,000	210,000
Issue of 2009 (Refunding-var.)	2,010,000	-	255,000	1,755,000	260,000
Issue of 2011A (CTC)	8,880,000	-	155,000	8,725,000	165,000
Issue of 2011B (Refunding)	8,510,000	-	740,000	7,770,000	1,220,000
Issue of 2012 (Refunding-BSMS 2004)	9,150,000	-	110,000	9,040,000	110,000
Issue of 2013 (Refunding-BSMS 2005)	-	1,215,000	-	1,215,000	20,000
	<u>43,530,000</u>	<u>1,215,000</u>	<u>4,320,000</u>	<u>40,425,000</u>	<u>2,730,000</u>
Net deferred amounts for issuance premiums, discounts and call premiums	(533,076)	(14,810)	37,896	(509,990)	(46,324)
Total bonds payable	<u>42,996,924</u>	<u>1,200,190</u>	<u>4,357,896</u>	<u>39,839,218</u>	<u>2,683,676</u>
Capital leases	23,672	-	23,672	-	-
Compensated absences	1,373,861	164,474 (A)	189,909	1,348,426	129,858
Insurance assessment	-	401,521	-	401,521	-
	<u>\$ 44,394,457</u>	<u>1,766,185</u>	<u>\$ 4,571,477</u>	<u>\$ 41,589,165</u>	<u>\$ 2,553,818</u>
Business-type activities:					
Compensated absences	\$ 75,667	\$ 9,923	\$ 34,455	\$ 51,135	\$ 4,970

(A) This amount represents the net reduction in compensated absences, ie, days earned less days taken.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

8. Capital Lease Obligations

The District had entered into a lease for school buses with the Kentucky Interlocal School Transportation Association (KISTA). Lease payments of \$24,595 (including \$923 of interest) were made during the year ended June 30, 2013, resulting in full extinguishment of the capital lease obligation.

9. Retirement Plans

KTRS

The Hopkins County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://www.ktrs.ky.gov/>.

Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The Hopkins County School District's total payroll for the year was \$38,702,812. The payroll for employees covered under KTRS was \$29,295,964. For the year ended June 30, 2013, the Commonwealth contributed \$3,643,514 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were \$536,186, \$449,400, and \$301,827, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

CERS

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members are required to contribute 5% (6% if hired after September, 2008) of their annual creditable compensation. The District is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$1,786,539, \$1,751,702, and \$1,575,366, respectively, equal to the required contributions for each year.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

9. Retirement Plans, continued

Defined Contribution Plans

The District makes available various 401(k) and 403(b) defined contribution pension plans for all regular full-time and part-time employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans, but retains authority to amend or terminate these plans. During the year ended June 30, 2013, employees of the District contributed \$232,347 to 401(k) plans and \$197,956 to 403(b) plans.

10. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue 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 and 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 report these assets and liabilities on its financial statements. The District does not contribute to these plans. Employees of the District contributed \$172,837 to these plans during the year ended June 30, 2013.

11. Post Employment Health Care Benefits

Plan description – In addition to the pension benefits described in Note 9, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. The premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1.0% of members' salary for the 2012-2013 fiscal year. The District's contribution to the Retiree Medical Insurance Fund for the years ending June 30, 2013, 2012 and 2011 were \$274,351, \$142,127 and \$72,975, respectively.

12. 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 to 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue its programs.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

12. Contingencies, continued

As shown in Note 7, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series 1996(100%), 1999B(72%), 2002A(75%), 2002B(41%), 2005(100%), 2006(100%), 2008(59%), 2009Ref(100%), 2011A(36%) and 2005(100%). In the unlikely event the KSFCC defaults on their portion of the bond series, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2013, was \$10,148,548.

Per an annexation agreement dated June 16, 1998, the Dawson Springs Independent School District (DSISD) agreed to be responsible for the debt service on certain outstanding bonds through 2019. DSISD paid \$11,380 during the year to the District and the balance of the obligation was \$67,135 as of June 30, 2013. Should the DSISD not fulfill its obligation, the District is responsible for the full amount of the debt service. It is the District's policy to recognize the amounts received each year as income from other local governments.

A potential claim exists in that an internal complaint has been filed against the District. The likelihood of an unfavorable result in this matter is neither probable nor remote but not unlikely. The range for potential loss cannot be estimated with any accuracy.

13. Subsequent Events

Management has evaluated subsequent events through November 8, 2013, the date on which the financial statements were available to be issued.

14. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium 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. 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.

15. Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues and other sources under expenditures and other uses resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

General Fund	\$	925,199
Special Revenue Fund	\$	345,762
Construction Fund	\$	1,857,731
Debt Service Fund	\$	157,921
Food Service Fund	\$	58,474
Child Care Fund	\$	9,579

16. 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 (contingency).

HOPKINS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2013

17. Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2013, is as follows:

Due from Fund	Due to Fund	Purpose	Amount
None			

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

From Fund	To Fund	Purpose	Amount
Nonmajor Governmental Funds:			
Capital Projects (FSPK)	Debt Service	Bond payments	\$ 2,265,572
Capital Projects (SEEK)	Debt Service	Bond payments	625,073
General Fund	Debt Service	Bond payments	87,722
Total Nonmajor Governmental funds			<u>2,978,367</u>
General Fund	Special Revenue	Matching (KETS)	99,056
General Fund	Special Revenue	Reimbursements-prior years	530,966
Capital Projects (Construction)	General	Reimbursements-prior years	796,338
Debt Service	General	Reimbursements-prior years	169,633
			<u>\$ 4,574,360</u>

18. Commitments/Impairment/Litigation (Career and Technical Center)

The District had the following outstanding construction projects, as evidenced by contracts, purchase orders or BG-1 forms, as applicable, as of June 30, 2013.

Project	Total Commitment	Incurred To Date	Commitment Remaining
Career and Technical Center (10-120)	\$ 10,363,099	\$ 6,499,157	\$ 3,863,942
Career and Technical Center Stabilization (12-285)	3,457,242	65,488	3,391,754
Total	<u>\$ 13,820,341</u>	<u>\$ 6,564,645</u>	<u>\$ 7,255,696</u>

Both projects relate to the construction of a Career and Technical Center ("Center") which has been suspended. The District is currently the plaintiff in litigation regarding the Center. A probable and reasonable estimate of the outcome of the litigation cannot be determined at this time. Although BG-1 forms are currently outstanding for these projects, it is anticipated that these commitments will be transferred to a new BG-1 for construction of a new Center at a different location. The costs incurred to date \$6,564,645 represent an asset with a fair market value of approximately \$100,000. The fair market value consisted of \$50,000 for residual materials value and \$50,000 for the land based on the District's knowledge of current market conditions. Accordingly, \$6,464,645 is considered impaired and has been expensed in the current year in the District's Statement of Activities.

The District has received \$369,278 in insurance recoveries related to the Center. This amount is in dispute and is, therefore, reported as deferred revenue in the General Fund.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2013

19. On-Behalf Payments

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2013. The amounts are included in the General Fund and Debt Service Fund, as "Intergovernmental-State" revenues and in the Food Service Fund and Child Care Fund as "State grants." These amounts are not budgeted. In the General Fund, the retirement and technology payments are recorded as additional instruction expense and the health insurance, life insurance, administration fee and health reimbursement account payments are allocated to the various expense functions based on a ratio of employees. In the Debt Service Fund, the payments are recorded as principal and interest expenditures. In the Food Services Fund and Child Care Fund, all of the payments are recorded as additional employee benefits.

Kentucky Teachers Retirement System	\$ 3,643,514
Health insurance, life insurance, administrative fee, health reimbursement account, net of federal reimbursements	6,755,024
Technology	108,044
Debt Service	<u>1,593,859</u>
Total On-Behalf Payments	<u>\$ 12,100,441</u>
Reported in:	
General Fund	\$ 10,119,314
Debt Service Fund	1,593,859
Food Service Fund	350,475
Child Care Fund	<u>36,793</u>
	<u>\$ 12,100,441</u>

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources				
Taxes				
Property	\$10,856,170	\$10,856,170	\$12,196,301	\$1,340,131
Motor vehicle	1,325,000	1,325,000	1,627,555	302,555
Unmined mineral	200,000	200,000	378,573	178,573
Other	75,000	75,000	68,180	(6,820)
Earnings on investments	25,000	25,000	38,807	13,807
Student activities		1,000	3,200	2,200
Other local revenues	7,000	8,500	250,755	242,255
Intergovernmental - Local			113,379	113,379
Intergovernmental - State	27,979,988	27,979,988	27,775,111	(204,877)
Intergovernmental - Direct Federal			53,602	53,602
Total revenues	40,468,158	40,470,658	42,505,463	2,034,805
Expenditures:				
Current:				
Instruction	25,821,337	25,868,367	26,371,142	(502,775)
Support Services:				
Student	1,584,387	1,583,043	1,566,515	16,528
Instruction staff	1,464,543	1,568,960	1,374,489	194,471
District administrative	3,103,308	3,103,308	1,548,651	1,554,657
School administrative	2,855,378	2,860,588	2,870,183	(9,595)
Business	1,332,898	1,330,224	1,311,579	18,645
Plant operation and maintenance	5,455,995	5,458,668	5,430,783	27,885
Student transportation	3,535,361	3,535,361	3,287,494	247,867
Other instructional	200,331	47,519	50,085	(2,566)
Community service activities				-
Debt service:				
Principal	151,924	151,924	23,673	128,251
Interest			923	(923)
Issuance costs				-
Total expenditures	45,505,462	45,507,962	43,835,517	1,672,445
Excess (deficit) of revenues over expenditures	(5,037,304)	(5,037,304)	(1,330,054)	3,707,250
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets			156,628	156,628
Operating transfers in			965,971	(965,971)
Operating transfers out	(150,000)	(150,000)	(717,744)	(567,744)
Contingency	(2,750,000)	(2,750,000)		2,750,000
Total other financing sources (uses)	(2,900,000)	(2,900,000)	404,855	3,304,855
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(7,937,304)	(7,937,304)	(925,199)	7,012,105
Fund balance, July 1, 2012	7,937,304	7,937,304	7,824,310	(112,994)
Fund balance, June 30, 2013	\$ -	\$ -	\$6,899,111	\$6,899,111

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Earnings on investments		\$1,800	\$1,755	(\$45)
Student activities			5,068	5,068
Intergovernmental - State	\$ 2,025,588	1,976,469	1,524,149	(452,320)
Intergovernmental - Indirect federal	4,935,100	4,944,440	4,451,094	(493,346)
Intergovernmental - Direct federal	179,058	179,058	106,883	(72,175)
Total revenues	7,139,746	7,101,767	6,088,949	(1,012,818)
Expenditures:				
Current:				
Instruction	5,690,262	5,785,052	5,163,866	621,186
Support services:				
Student	199,388	202,145	198,982	3,163
Instruction staff	762,153	712,789	753,553	(40,764)
District administrative				-
School administrative				-
Business	4,800	4,800	4,574	226
Plant operation and maintenance	25,177	25,177	69,644	(44,467)
Student transportation	7,350	7,350	184,000	(176,650)
Central office				-
Community services	600,616	690,114	690,114	-
Capital outlay:				
Facilities acquisition and construction				-
Total expenditures	7,289,746	7,427,427	7,064,733	362,694
Excess (deficit) of revenues over expenditures	(150,000)	(325,660)	(975,784)	(650,124)
Other Financing Sources (Uses):				
Proceeds from sale of assets				-
Operating transfers in	150,000		630,022	630,022
Operating transfers out		(386,036)		386,036
Total other financing sources (uses)	150,000	(386,036)	630,022	1,016,058
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	(711,696)	(345,762)	365,934
Fund balance, July 1, 2012	-	-	345,762	345,762
Fund balance, June 30, 2013	\$ -	\$ (711,696)	\$ -	\$ 711,696

HOPKINS COUNTY SCHOOL DISTRICT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS

FOR THE YEAR ENDED JUNE 30, 2013

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation between the Budgetary Basis of Accounting and GAAP

A basis difference exists in the General Fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments, primarily retirement and employee benefits. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

<u>General Fund:</u>	<u>Budget Basis</u>	<u>GAAP Basis</u>	<u>Difference</u>
Revenues:			
Intergovernmental-state	\$ 27,775,111	\$ 37,894,425	\$ 10,119,314
Expenditures:			
Instruction	26,371,142	33,604,921	7,233,779
Support services:			
Student	1,566,515	1,930,348	363,833
Instructional staff	1,374,489	1,697,053	322,564
District administration	1,548,651	1,639,071	90,420
School administration	2,870,183	3,609,068	738,885
Business	1,311,579	1,565,860	254,281
Plant operation and maintenance	5,430,783	6,020,694	589,911
Student transportation	3,287,494	3,813,135	525,641

Special Revenue Fund:

There were no material variances between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**HOPKINS COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents				
Accounts receivable:				
Local				
Accrued interest receivable				
Prepaid expenses			\$ 55,315	\$ 55,315
Restricted investments			354,505	354,505
Restricted cash	\$ -	\$ -	-	-
Total assets	\$ -	\$ -	\$ 409,820	\$ 409,820
Liabilities				
Accounts payable				\$ -
Due to other funds				-
Total liabilities	-	-	-	-
Fund Balances				
Nonspendable:				
Prepaid expenses			\$ 55,315	\$ 55,315
Restricted for:				
Capital projects	\$ -	\$ -	354,505	354,505
Debt service				-
Total fund balances	-	-	409,820	409,820
Total liabilities and fund balances	\$ -	\$ -	\$ 409,820	\$ 409,820

**HOPKINS COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$1,276,862			\$1,276,862
Earnings on investments		\$88	\$15,682	15,770
Intergovernmental - State	988,710	624,985	1,593,859	3,207,554
Total revenues	2,265,572	625,073	1,609,541	4,500,186
Expenditures:				
Capital outlay:				
Facilities acquisition and construction				-
Debt Service:				
Principal			3,250,000	3,250,000
Interest			1,329,153	1,329,153
Bond issuance costs			23,615	23,615
Total expenditures	-	-	4,602,768	4,602,768
Excess (deficit) of revenues over expenditures	2,265,572	625,073	(2,993,227)	(102,582)
Other Financing Sources (Uses)				
Bonds issued			1,215,000	1,215,000
Payment to refunded bond escrow agent			(1,173,618)	(1,173,618)
Premium on bonds issued				-
Discount on bonds issued			(14,810)	(14,810)
Transfers in			2,978,367	2,978,367
Transfers out	(2,265,572)	(625,073)	(169,633)	(3,060,278)
Total other financing sources (uses)	(2,265,572)	(625,073)	2,835,306	(55,339)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	(157,921)	(157,921)
Fund balance, July 1, 2012	-	-	567,741	567,741
Fund balance, June 30, 2013	\$ -	\$ -	\$409,820	\$409,820

**HOPKINS COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>School</u>	<u>Cash Balances July 1, 2012</u>	<u>Receipts</u>	<u>Disburse- ments</u>	<u>Cash Balances June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Fund Balances June 30, 2013</u>
Hopkins County Central High	\$237,584	\$500,728	\$496,029	\$242,283		\$918	\$241,365
Madisonville North Hopkins High	159,476	373,006	385,897	146,585		1,421	145,164
	<u>397,060</u>	<u>873,734</u>	<u>881,926</u>	<u>388,868</u>	-	2,339	<u>386,529</u>
ADTP	771	311	873	209			209
Career and Technical Center	2,132	663		2,795			2,795
Browning Springs Middle	31,679	70,616	79,441	22,854		1,074	21,780
Central Office - various*	8,350	7,694	6,658	9,326			9,326
Earlington Elementary	9,943	28,903	25,461	13,385			13,385
Grapevine Elementary	11,799	31,942	31,736	12,005			12,005
Hanson Elementary	28,726	48,224	41,802	35,148	\$2,340		37,488
James Madison Middle	54,995	128,209	116,132	67,072			67,072
Jesse Stuart Elementary	5,906	39,470	36,930	8,446			8,446
Pride Elementary	12,379	86,080	83,623	14,836			14,836
Southside Elementary	29,331	26,000	23,661	31,670			31,670
South Hopkins Middle	52,201	149,166	139,085	62,272			62,272
West Broadway Elementary	18,276	51,078	51,486	17,868		314	17,554
West Hopkins	27,676	83,915	88,596	22,995		3,070	19,925
	<u>\$691,224</u>	<u>\$1,625,996</u>	<u>\$1,607,411</u>	<u>\$709,748</u>	<u>\$2,340</u>	<u>\$6,797</u>	<u>\$705,291</u>

* Includes flower, vending, transportation, maintenance, bus garage, and drivers emergency funds.

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
HOPKINS COUNTY CENTRAL HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances July 1, 2012	Receipts	Disburse- ments	Transfers	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Academic Team	\$51	\$100			\$151			\$151
Air Force ROTC	7			\$7	14			14
AP Test	7,246	7,265	\$6,328		8,183			8,183
Archery Club	5,699	26,683	25,455		7,012	\$40		6,972
Art	827	125		25	977			977
Art Club	0	300		(25)	275			275
Athletic Dept.	451	70,431	81,661	19,858	9,079		505	8,574
Band	430	706	736	30	430			430
Baseball	16	613	1,607	978	0			0
Beta Club	830	470	480	(30)	790			790
Bookstore	2,139	14,611	16,107	966	1,609			1,609
Boys Basketball	722	14,335	17,225	3,509	1,341			1,341
Business Dept.	278	105	229		154			154
Change	0	1,500	1,500		0			0
Cheerleaders	1,851	12,799	12,872	1,538	3,316			3,316
Chess Club	487			(487)	0			0
Chorus	6,819	11,469	12,839	(1,234)	4,235			4,235
Chorus Trip	579	28,047	29,886	1,260	0			0
Concessions	56,477	30,291	17,010	(32,638)	37,120			37,120
Cross Country	450	1,416	2,263	522	105		18	87
Custodial Acct	321	304	379	400	646			646
Dance Squad	1	1,050	3,049	2,013	15			15
Decals	88				88			88
Drama	334	805	833	48	354			354
Driver education	11,859	2,970	1,200	(241)	13,388			13,388
Embroidery	156	13	68		101			101
Employee of the Month	1,000		173		827			827
Exceptional Entre.	25				25			25
Extended School	3,196	570	30	(30)	3,706			3,706
Fan Club	141				141			141
F.B.L.A.	1,697	3,995	3,726	(25)	1,941			1,941
F.C.A.	57	18			75			75
F.F.A.	411	33,337	32,489	(581)	678		182	496
F.C.C.L.A.	969	5,578	6,476		71			71
F. E. A	1			(1)	0			0
Football	575	670	1,811	1,270	704			704
(4)Four H Club	383	578	403		558			558
Freshman Class	1,185	1,175	1,266	(100)	994			994
Girls Basketball	2,226	24,699	22,798	2,340	6,477			6,477
Girls Volleyball	18		600	852	270			270
Golf Girls	0		261	484	223			223
Golf Boys	37	188	587	865	503			503
Greenhouse	0	2,732	2,998	266	0			0
Guidance Testing	1,166	762	981		947			947
Hall of Fame	271	1,150	1,144		277			277
Holiday BB Tour.	116				116			116
Home Ec	36	2,429	1,357	(70)	1,038			1,038
HOSA	1,449	7,948	7,393	300	2,304			2,304
Instructional	2,674	10,074	9,128	44	3,664			3,664
Kenny Harris	250		250		0			0
Key Club	426			(426)	0			0
LEO Club	443			(443)	0			0
MCLC	35				35			35
Media Center	37	80	45		72			72
Miscellaneous	5,365	6,931	5,842	1,147	7,601			7,601
National Honor Society	13,185	31,081	42,387	(240)	1,639			1,639
Olympic Field Day	5,196	4,370	4,048	(224)	5,294			5,294
Outdoorsmen's Club	272	236	250		258			258
PBIS	0	114	60		54			54
Pep Club	0	1,820	1,769	(50)	1			1
Performing Arts	556	16	572		0			0
Project Grad.	0	7,583	8,852	1,700	431			431
Region 2 FCCLA	0	2,124	2,124		0			0
ROTC Cadets	3,485	35,978	34,351	(404)	4,708			4,708
ROTC Trip	0				0			0
Science & Math Club	2,579		551	(25)	2,003			2,003
Second Region AD	975	1,100	1,332	75	818			818
Sophomore Class	1,070	980	5		2,055			2,055
Senior Trip	0	25,060	25,053		7			7
Senior Class	4,388	80	2,768	(1,700)	(0)			(0)
Shout Outs	5				5			5
Soccer Boys	402	119	125	527	923			923
Soccer Girls	1,356		948	701	1,109			1,109
Softball	1,301	1,205	1,929	403	980			980
Junior Class	2,545	5,363	5,760		2,138			2,138
South Hopkins	518				518			518
Spanish Club	70	300	238		132			132
Storm Hoops Banner	101	5,820	871	(4,950)	100			100
Student Vending	5,155	1,925	1,696	500	5,884			5,884
Swim	96			454	550			550
Teacher Vending	1,034	3,115	1,750		2,399			2,399
Tennis	660	595	595	472	1,132			1,132
Textbook Rental	47,919	24,421	2,523	30	69,847			69,847
Track	562	2,535	2,402	447	1,132		132	1,000
TSA	56	60		(25)	91			91
Yearbook	15,275	9,145	17,466	(27)	6,927			6,927
YSC TOP	589			(100)	489		41	448
Youth Service Center	5,938	6,241	4,109	(40)	8,030			8,030
TOTAL	\$237,584	\$500,728	\$496,029	\$0	\$242,283	\$0	\$918	\$241,365

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MADISONVILLE NORTH HOPKINS HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances July 1, 2012	Receipts	Disburse- ments	Transfers	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Academic Team	\$43	\$624	\$687		\$0			\$0
Administrative	10,906	9,304	18,657	\$4,092	5,645		\$75	5,670
Adv Leadership	41				41			41
Agri Consumables	11				11			11
Annual	1,108	17,843	16,322		2,629			2,629
Archery	2,937	8,243	10,743	(300)	137			137
Art Club	12	50			62			62
Art Department	76	1,274	1,036		314			314
Athletic Dept.	10,791	72,637	84,535	\$920	13			13
Athletic Extras	40	25,268	12,188	(7,620)	5,500			5,500
Band	1,992		1,770		222			222
Baseball Program	1,496	6,979	8,858	409	26			26
Basketball Boys	3,569	3,255	6,464	234	594			594
Beta Club	445	5	605	540	385			385
Beta Delta	2,248	1,251	1,040	(540)	1,919			1,919
Boys & Girls Cross Country	589	160	1,052	576	273			273
Boys Track	31	1,147	1,108		70			70
Brag Tags	490	1,244	1,023	20	731			731
Business Dept.	1,132	1,396	1,491	(602)	435			435
Cheerleaders	26	50	280	438	234			234
Chemistry Club	120				120			120
Chess Club	111				111			111
Chem. Safety Equip.	1,974	1,210	3,069		115			115
Coal C.E.D.A.R.	1			(1)	0			0
Coke Machine	2,756	3,038	793		5,001			5,001
Culinary Skills	1,404	1,415	1,186		1,633			1,633
Custodial	3			(3)	0			0
Dance Team	300	205	592	1,168	1,081			1,081
Distributive Education	1,634				1,634			1,634
Donan Scholarship	500				500			500
Drama	1,912	1,872	2,429	(287)	1,068	36		1,032
Dream Team	230	1,513	1,468	55	330			330
Drivers Training	17,431	9,115	1,300		25,246			25,246
English Dept.	356	1,045	675		726			726
Faculty Fund	1,556	2,069	2,485		1,140			1,140
Fellowship of Christian Ath.	859		500		359			359
F.B.L.A.	0	9,205	9,105	(100)	0			0
F.F.A.	3,896	25,344	27,920	(520)	800			800
F.F.A. Greenhouse	0	4,040	2,893	500	1,647			1,647
F.H.A.	191	4,315	4,390		116			116
Food Products	293	66	147		212			212
Football Fund	43	1,630	1,727	204	160	126		24
Girls Basketball	346		129	1,168	1,385			1,385
Girls Softball	536	25	417	117	261			261
Girls Track	1,094	190	861		423			423
Glee Club	457	2,263	2,559	287	448			448
Golf Program	255	608	250	88	701			701
Guidance	9,242	23,269	24,283		8,228			8,228
Health Occup.	882	714	811		785			785
Home Economics Dept	24				24			24
Hour/Seitas	3,500				3,500			3,500
Industrial Arts	383	2,989	3,334	280	318	213		105
Incentive Program	143	90	105		128			128
Key Club	1,723	4,446	6,732	1,315	752			752
Lafarman Association	800	1,310	600		1,510			1,510
Library	264	90	35		319			319
Locker Fund	2,851	6,740	8,236		1,355			1,355
Lost Book	1,762	432	597		1,597			1,597
Maroon Nallon	9			(9)	0			0
Modern Foreign Language	758		190		568			568
Multi Culture Club	187				187			187
Not in my School	12				12			12
NOW Account	268	29			297			297
NJRR/OTC	4,949	8,288	6,690		6,547	965		5,583
Outdoor Club	1,060			(1,060)	0			0
PBIS	0	100	75		25			25
PE	506	327			833			833
PEP Club	356				356			356
Project Graduation	3,244	11,882	12,631		2,495	7		2,489
Science Club	186				186			186
Seniors 2012	1,579			(1,579)	0			0
Seniors 2011	2,286			(2,286)	0			0
Seniors 2015	1,375	1,340	141		2,574			2,574
Seniors 2013	3,046	1,135	2,945	666	1,902			1,902
Seniors 2014	2,685	17,263	15,224		4,724			4,724
Seniors 2016	0	2,305	920		1,385			1,385
Senior Trips	3,090	615	1,382		2,323			2,323
Soccer Girls	464		812	672	324			324
Soccer Boys	1,256		180	409	1,485			1,485
Social Studies	796		58	530	1,268			1,268
Sports Marketing	1,716				1,716			1,716
Spanish Club	745	475	455		765			765
SSF	405	357	195		567			567
Student Emergency Fund	414				414			414
Student Y	378				378			378
Spanish Text Book	194		63		131			131
Student Textbook	10,421	36,831	42,406	(1,616)	3,230			3,230
Student Textbooks Science	3,317		788	530	3,059			3,059
Student Government	13	302	302		13			13
Summer School	1,946	1,650			3,596			3,596
Swimming Scholarship	1,000	1,000	1,358	350	992			992
T.A.P.	59				59			59
Tennis	8	310	401	88	5			5
Textbooks DE store	5,503	15,308	16,535		4,276			4,276
Toyota Athletic	0	10,000	1,558		8,442			8,442
Triple M	1,138	60	583	(9)	606			606
Volleyball	68			876	944			944
Young Educators	20				20			20
Youth Service Center	6,204	3,251	2,538		6,917			6,917
TOTAL	\$159,476	\$373,006	\$386,897	\$0	\$146,586	\$0	\$1,421	\$145,164

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005-13 7760005-12	\$ 513,507 131,525 <u>645,032</u>
NATIONAL SCHOOL LUNCH PROGRAM			
CASH ASSISTANCE	10.555	7750002-13 7750002-12	1,490,848 372,486
NONCASH ASSISTANCE - COMMODITIES (Note C)		Fund 51	187,931 <u>2,051,265</u>
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7690024-12&13 7740023-12&13	2,058 19,736 <u>21,794</u>
TOTAL CHILD NUTRITION CLUSTER			<u>2,718,091</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>2,718,091</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
GRANTS TO LOCAL EDUCATION AGENCIES	84.010	3100002-11 3100002-12 3100002-10 3100202-11 3100202-12	596,204 1,516,665 46,302 97,961 168,439 <u>2,425,571</u>
TOTAL TITLE I CLUSTER			<u>2,425,571</u>
MIGRANT EDUCATION-STATE GRANT PROGRAM	84.011	3110002-11	53,829 <u>53,829</u>
SPECIAL EDUCATION CLUSTER:			
GRANTS TO STATES (IDEA, PART B)	84.027	3810002-11	1,106,864 <u>1,106,864</u>
PRESCHOOL GRANTS (IDEA PRESCHOOL)	84.173	3800002-11 3800002-12	63,106 24,926 <u>88,032</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>1,194,896</u>
EDUCATION TECHNOLOGY CLUSTER:			
EDUCATION TECHNOLOGY STATE GRANTS	84.318	3210002-10	828 <u>828</u>
TOTAL EDUCATION TECHNOLOGY CLUSTER			<u>828</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002-11 3230002-12	111,112 298,166 <u>409,278</u>

**HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION, CONTINUED</u>			
VOCATIONAL EDUCATION BASIC GRANTS TO STATES	84.048	4621132-13 4621232-11	78,936 <u>4,023</u> <u>82,959</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	3990002-11	<u>6,446</u> <u>6,446</u>
TITLE VI RURAL AND LOW INCOME	84.358	3140002-11 3140002-12	50,354 <u>39,580</u> <u>89,934</u>
TITLE III CONS PD, RECOVERY ACT	84.365	3300001-11	<u>20,563</u>
SCHOOL IMPROVEMENT GRANTS, RECOVERY ACT	84.388	4100302-09	<u>113,067</u>
EDUCATION JOBS FUND	84.410	EJOB00-10	<u>12,149</u>
RACE TO THE TOP	84.413	3960002-11	<u>30,074</u>
PASSED THROUGH THE STATE DEPARTMENT OF HUMAN RESOURCES AND THE KENTUCKY EDUCATIONAL COLLABORATIVE FOR STATE AGENCY CHILDREN:			
TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	PROJ 3138-9	<u>11,500</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,451,094</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
ROTC AFROTC	1010-13	PROJ 5043 PROJ 6043	57,474 <u>49,409</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>106,883</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,276,068</u>

Note A: Basis of Presentation:

This schedule of expenditures of federal awards includes the federal grant activity of the Hopkins County School District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the Hopkins County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hopkins County School District.

Note B: Summary of Significant Accounting Policies:

(1) Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein, certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note C: Commodities:

Noncash assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

Note D: Medical Reimbursements:

Although reported in the financial statements as direct federal revenue, medical reimbursements (\$58,667) are not considered expenditures of federal awards for the purposes of this schedule.

**HOPKINS COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2013**

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
Randy Franklin Chairman	Madisonville, Kentucky	December 31, 2016
Michael Morgan Vice Chairman	Nebo, Kentucky	December 31, 2014
Shannon Embry	Madisonville, Kentucky	December 31, 2016
Steve Faulk	Madisonville, Kentucky	December 31, 2014
Suzanne Duncan	Nortonville, Kentucky	December 31, 2016

Administrative Personnel

James L. Stevens - Superintendent and Secretary of the Board

Linda Q. Zellich - Deputy Superintendent

Marci Cox – Assistant Superintendent for Pupil Transportation

Steve Gilliam – Assistant Superintendent, Facilities, Finance, Food Service and Safety

Eydie L. Tate, CPA – Director of Finance and Treasurer

Shari Winstead – Director of Technology

Michael Dodridge – Director of Food Services

Brad Johnson – Director of Pupil Personnel

Jason Clark – Director of Secondary Curriculum and District Assessment

Jennifer Luttrell – Director of Elementary Curriculum and Title I

Tonia Griffey – Director of Special Education and Early Childhood



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

State Committee for School District Audits
Members of the Board of Education
Hopkins County School District
Madisonville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal year 2012-2013 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hopkins County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hopkins County School District's basic financial statements and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (B2013-01) that we consider to be a significant deficiency.

Compliance and Other Matters

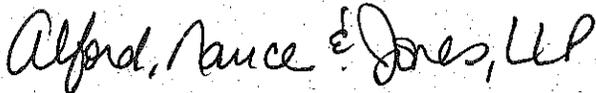
As part of obtaining reasonable assurance about whether Hopkins County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the Kentucky State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract.

Hopkins County School District's Response to Findings

Hopkins County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hopkins County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Alford, Nance & Jones, LLP
November 8, 2013



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

State Committee for School District Audits
Members of the Board of Education
Hopkins County School District
Madisonville, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hopkins County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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' Fiscal Year 2012-2013 Financial Audit Contract. Those standards, requirements, 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 Hopkins County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

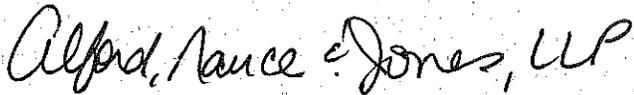
Management of Hopkins County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hopkins County School District's internal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

over compliance. Accordingly, we do not express an opinion on the effectiveness of Hopkins County School District's internal control over compliance.

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

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

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



Alford, Nance & Jones, LLP
November 8, 2013

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Hopkins County School District.
2. One significant deficiency was disclosed during the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*. This significant deficiency is not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Hopkins County School District were disclosed during the audit.
4. There were no deficiencies disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Hopkins County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Child Nutrition Cluster:	
-School Breakfast Program	10.553
-National School Lunch Program	10.555
-Summer Food Service Program	10.559
Title 1 Cluster:	
-Grants to Local Education Agencies	84.010
Special Education Cluster:	
-Grants to States (IDEA, Part B)	84.027
-Preschool Grants (IDEA Preschool)	84.173
Improving Teacher Quality State Grants	84.367

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hopkins County School District was determined to be a low risk auditee.

B. Findings-Financial Statements Audit

B2013-01 Significant Deficiency – Purchasing

Condition: There were several instances where purchase orders were not utilized and prepared properly.

Criteria: Effective internal controls over purchasing are necessary to ensure that purchase orders are properly prepared and authorized.

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2013

B. Findings-Financial Statements Audit, continued

B2013-01 Significant Deficiency – Purchasing, continued

Cause: Although there is a purchasing policy, it is not being complied with which results in purchase orders not being prepared properly.

Effect: There were several purchase orders that were prepared and dated subsequent to the vendor's invoice, standard invoices used instead of purchase orders, and documents were not properly approved.

Recommendation: We recommend that purchase orders be utilized and properly completed. We further recommend a thorough review of the District's purchasing policy.

Management's Response: The District will review it's purchasing policy and make the necessary adjustments. Finance will make the responsible employees aware of the policies and procedures required for purchasing at the District level.

C. Findings and Questioned Costs - Major Federal Award Program Audit

None reported

D. Schedule of Prior Audit Findings (Relative to Federal Awards)

None reported



State Committee for School District Audits
Members of the Board of Education
Hopkins County School District
Madisonville, Kentucky 42431

In planning and performing our audit of the financial statements of the Hopkins County School District for the year ended June 30, 2013 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 November 8, 2013, contains our report on significant deficiencies and material weaknesses, if any, in the District's internal control structure. This letter does not affect our report dated November 8, 2013 on the financial statements of the Hopkins County School District.

We appreciate the opportunity to bring these comments to your attention. We have already discussed many of these comments and suggestions with various District personnel, and 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.

Alford, Nance & Jones, LLP

Alford, Nance & Jones, LLP
November 8, 2013

HOPKINS COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2013

CURRENT YEAR MANAGEMENT LETTER POINTS

Purchasing (Activity Funds)

Finding: We noted instances of purchase orders not being prepared properly.

Criteria: The "Red Book" and KDOE guidelines.

Cause and Effect: Improper use primarily involved the following: (1) some purchase orders were prepared and dated subsequent to the vendor's invoice, (2) purchase orders were not utilized in accordance with red book, and (3) documents were not properly approved. Purchase orders are to be used as documentation that a purchase is authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice. Not only does the proper use of purchase orders aid in the control of school expenses, it also protects purchasers from the possibility of being denied reimbursement of purchases for school purposes. Instances of noncompliance were noted at some of the schools and the central office. (JMMS, BSMS, HES, ADT, JSES, HCCHS, WHS, central office transportation and maintenance activity funds)

Recommendation: We recommend that purchase orders be utilized and properly completed.

Response. The District will provide mandatory annual Redbook training to the school bookkeepers and principals. We will stress the importance of proper use and completion of purchase orders along with following accounting procedures for school activity funds.

Required Forms/Procedures

Finding: We noted instances where it appeared that these forms were either not completed or completed improperly and/or where required procedures were not followed.

Criteria: The KDOE "Red Book" requires the use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple Receipts, (2) Fundraising, (3) Inventory Control, (4) Internal Accounts Budgets and (5) Annual Financial Report. It also requires additional procedures and controls.

Cause and Effect:

<u>FORMS</u>	
Multiple Receipts	- Some either not used or used incorrectly (signed by teachers). (SES, PES, BSMS, MNHHS)
Fundraising	- Some either not used or used incorrectly fundraising worksheet and approval form. (BSMS, JSES, MNHHS, WBES, GES, HCCHS, WHS)
Inventory Control	- Some either not used or used incorrectly. (MNHHS, HCCHS, WHS)
Transfer Form	- Some not prepared correctly or not signed by principal. (WHS, SHMS)
Internal Account	
Annual or Monthly	
Report	- Reports not submitted to Superintendent. (ADT)
Ticket Sales	- Was not used or used incorrectly. (WHS, SHMS, BSMS, MNHHS)

HOPKINS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

CURRENT YEAR MANAGEMENT LETTER POINTS, continued

Required Forms/Procedures, continued

PROCEDURES

More than one instance of no confirmation signatures on invoices. (ADT)
Activity fund money used to purchase items not used for students (MNHHS, JSES, HES, GES, EES, ADT, SES, JMMS, WHS, BSMS, SHMS)
Store account cards held for unreasonably long time. (HCCHS, BSMS, PES, JSES)
More than one instance noted where checks contained only one signature. (MNHHS, BSMS)
Donations were receipted into the activity funds instead of being forwarded to the central office in accordance with District policy. (BSMS)

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms and procedures.

Response: The District will provide mandatory annual Redbook training to the school bookkeepers and principals. We will train the responsible employees to comply with Redbook requirements on the proper use of procedures and forms.

Booster Clubs

Finding: We noted noncompliance at some schools with the Booster Club reports. The primary area of noncompliance at the elementary school was the required information for the PTA. (BSMS, JSES, MNHHS)

Criteria: The KDOE "Red Book" requires Booster Clubs to submit the names of club officers and a budget to the principal at the beginning of the school year. In addition, an annual financial report shall be submitted to the principal by July 25 reporting receipts from admissions, fund raisers, dues, concession sales, and other categories; expenditures by payee, and beginning and ending balances.

Cause and Effect: Lack of enforcement in requiring compliance.

Recommendation: We recommend the principals increase their efforts in obtaining the required information from Booster Clubs, PTO's and PTA's. We further recommend that all budgets and reports be signed and dated.

Response: School principals will be made aware of the reporting requirements under Redbook for Booster Clubs, PTO's and PTA's at the District provided mandatory annual Redbook training.

Fixed Assets

Finding: We noted instances at all schools where a lack of reconciliation between recorded assets and their physical existence still exists. We performed test counts and noted computers and other assets in the schools which were not tagged and, therefore, not recorded in the fixed assets inventory. Per District policy, a fixed asset is defined as real property costing \$5,000 or more (and all computer workstations and laptops, regardless of value) and has a useful life of more than one (1) year and theft sensitive items that may be identified by the Hopkins County Board of Education. We also noted several fixed asset tags, particularly in the schools' kitchens, where the tags are no longer readable.

HOPKINS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

CURRENT YEAR MANAGEMENT LETTER POINTS, continued

Fixed Assets, continued

Criteria: A fixed asset policy has been adopted to provide for the accurate, timely and consistent accounting and safeguarding of fixed assets. The policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed assets and requires biannual inventory counts.

Cause and Effect: A revised fixed assets "Property Procedures Policy" was adopted in December, 2011, is not being complied with, resulting in opportunities for the undetected loss of fixed assets.

Recommendation: We recommend strict adherence to the District's "Property Procedures." Particular attention needs to be given to: 1) proper and timely reconciliation of recorded amounts to the physical assets and to the performance of inventory test counts. Test counts need to be performed, on all assets, not just technology assets.

Response: The District will review its fixed assets policy and procedures and work to comply with a policy adopted by the Board. The District will work to reconcile and record assets properly and timely. We will perform physical inventory counts and test counts to reconcile recorded assets with physical assets.

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status)

Purchasing

Finding: We noted instances of purchase orders not being prepared properly.

Criteria: The "Red Book" and KDOE guidelines.

Cause and Effect: Improper use primarily involved the following: (1) some purchase orders were prepared and dated subsequent to the vendor's invoice, (2) purchase orders were not utilized in accordance with red book, and (3) documents were not properly approved. Purchase orders are to be used as documentation that a purchase is authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice. Not only does the proper use of purchase orders aid in the control of school expenses, it also protects purchasers from the possibility of being denied reimbursement of purchases for school purposes. Instances of noncompliance were noted at some of the schools and the central office. (MNHHS, BSMS, GES, JSES, PES, WBES, ADT, central office activity funds)

Recommendation: We recommend that purchase orders be utilized and properly completed.

Response. The District will provide mandatory annual Redbook training to the school bookkeepers and principals. We will stress the importance of proper use and completion of purchase orders.

FYE 6/30/13: See current year comment "Purchasing (Activity Funds)".

Required Forms/Procedures

Finding: We noted instances where it appeared that these forms were either not completed or completed improperly and/or where required procedures were not followed.

Criteria: The KDOE "Red Book" requires the use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple Receipts, (2) Fundraising, (3) Inventory Control, (4) Internal Accounts Budgets and (5) Annual Financial Report. It also requires additional procedures and controls.

HOPKINS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status)

Required Forms/Procedures, continued

Cause and Effect:

FORMS

- | | |
|-------------------|---|
| Multiple Receipts | - Some either not used or used incorrectly (signed by teachers). (JSES, PES, BSMS, HCCHS, MNHHS) |
| Fundraising | - Some either not used or used incorrectly fundraising worksheet. (WHS, GES)
- School wide fundraiser was not approved by superintendent. (BSMS) |
| Inventory Control | - Some either not used or used incorrectly. (HCCHS, WHS) |
| Internal Account | |
| Budgets | - Budgets were not prepared. (ADT) |
| Annual Report | - Reports not submitted to Superintendent. (ADT) |
| Ticket Sales | - Was not used for one event (a dance). (WBES) |

PROCEDURES

- Instances where disbursements lacked proper documentation. (ADT)
- More than one instance of no confirmation signatures on invoices. (ADT, JSES)
- Instances noted where principal did not sign bank statements. (two months -WHS; twelve months - ADT)
- Store account cards held for unreasonably long time. (HCCHS, JSES, BSMS, WBES)
- More than one instance noted where checks contained only one signature. (BSMS, SHMS)
- Donations were receipted into the activity funds instead of being forwarded to the central office in accordance with the District policy. (GES, WHS)
- Activity fund ending the year in a deficit. (due to accounts payable – BSMS)
- More than one instance noted where deposit receipts were not initialed. (MNHHS, JSES, ADT)

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms and procedures.

Response: The District will provide mandatory annual Redbook training to the school bookkeepers and principals. We will train the responsible parties to comply with Redbook requirements on the proper use of procedures and forms.

FYE 6/30/13: See current year comment "Required Forms/Procedures".

Booster Clubs

Finding: We noted noncompliance at some schools with the Booster Club reports. The primary area of noncompliance at the elementary and middle schools was the annual report of the PTA's not containing the required information and no budgets prepared for the PTA and booster clubs. (BSMS, JMMS, JSES)

Criteria: The KDOE "Red Book" requires Booster Clubs to submit the names of club officers and a budget to the principal at the beginning of the school year. In addition, an annual financial report shall be submitted to the principal by July 25 reporting receipts from admissions, fund raisers, dues, concession sales, and other categories; expenditures by payee, and beginning and ending balances.

Cause and Effect: Lack of enforcement in requiring compliance.

Recommendation: We recommend the principals increase their efforts in obtaining the required information from Booster Clubs, PTO's and PTA's. We further recommend that all budgets and reports be signed and dated.

HOPKINS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status), continued

Booster Clubs, continued

Response: School principals will be made aware of the reporting requirements under Redbook for Booster Clubs, PTO's and PTA's at District provided mandatory annual Redbook training.

FYE 6/30/13: See current year comment "Booster Clubs".

Fixed Assets

Finding: We noted instances at essentially all schools where a lack of reconciliation between recorded assets and their physical existence still exists. We performed test counts and noted computers and other assets in the schools which were not tagged and, therefore, not recorded in the fixed assets inventory. Per District policy, all computers shall be reported as fixed assets, with a cost greater than \$300. We also noted several fixed asset tags, particularly in the schools' kitchens, where the tags are no longer readable.

Criteria: A fixed asset policy has been adopted to provide for the accurate, timely and consistent accounting and safeguarding of fixed assets. The policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed assets and requires biannual inventory counts.

Cause and Effect: A revised fixed assets "Property Procedures Policy" was adopted in December, 2011, is not being complied with, resulting in opportunities for the undetected loss of fixed assets.

Recommendation: We recommend strict adherence to the District's "Property Procedures." Particular attention needs to be given to: 1) proper and timely reconciliation of recorded amounts to the physical assets and to the performance of inventory test counts. Test counts need to be performed, on all assets, not just technology assets.

Response: The District will work to comply with the fixed asset policy adopted by the Board. Test counts will be performed twice a year on all assets and the District will reconcile recorded assets with physical assets.

FYE 6/30/13: See current year comment "Fixed Assets".

Uninsured/Uncollateralized Deposits

Finding: As of June 30, 2012, the District's cash and cash equivalents were uninsured and uncollateralized in the amount of \$88,824. This relates to The Cecilian Bank (QZAB) certificate of deposit.

Criteria: The safety of public funds should be a primary objective in cash management.

Cause and Effect: Lack of oversight to this requirement.

Recommendation: We recommend the institution be contacted to pledge securities for these accounts. The amount should be based on the highest projected balance during the year, less FDIC coverage. Particular attention should be given during periods of bond issuances.

Response: The District will require the financial institution to pledge securities for collateral against cash and cash equivalents.

FYE 6/30/13: Funds were adequately secured.

HOPKINS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status), continued

Central Office Activity Funds

Finding: The central office activity funds (flower, vending, maintenance, bus garage, drivers' emergency, driver's training center fund and transportation) lack consistent, independent reviews of the activity or reconciliations. Additionally, a new account was opened without proper authorization.

Criteria: The "Red Book"

Cause and Effect: Lack of oversight.

Recommendation: We recommend these accounts, due to lack of oversight, be closed. Alternatively, we recommend that they be combined and consolidated with a designated person that would be responsible for the proper accounting.

Response: We will combine the central office activity fund accounts, follow Redbook accounting procedures on these accounts, and designate a person responsible for the proper accounting of these accounts.

FYE 6/30/13: Two central office activity fund accounts are still being used but these accounts will follow Redbook accounting procedures.

Pay Rate Changes

Finding: During the course of our testing of payroll, we noted an instance where an employee had not received a salary increase for a rank change.

Criteria: There was no control in place to ensure that the correct pay rate change had been recorded in the payroll system.

Cause and Effect: Lack of controls regarding verification of the correct entry of pay rate changes.

Recommendation: We recommend there be a control function established to make sure that payroll changes have been authorized, approved and recorded.

Response: The District is establishing a human resource department to implement internal controls to make sure all pay changes have been authorized, approved and recorded.

FYE 6/30/13: A human resource department was established to make sure all pay changes are authorized, approved and recorded.