Hopkins County Schools

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Report on Audit of Financial Statements and Supplementary Information

for the year ended June 30, 2014

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

HOPKINS COUNTY SCHOOL DISTRICT
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for the year ended June 30, 2014

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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, 2014, 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 2013-2014 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, 2014, 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 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 12, 2014, 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
November 12, 2014

Hopkins County Schools
Every Child • Every Effort • Every Day
Linda Q. Zellich, Superintendent

Eydie Tate
Director of Finance

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

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 2014. The rate generated $764,621 less tax revenue compared to fiscal year 2013.
- The General Fund had $52.2 million in revenue, which primarily consists of SEEK (State Funding), property and motor vehicle taxes, and on behalf revenue reported for payments made at the state level in the name of the school district. There were $54.4 million in General Fund Expenditures.
- All of Kentucky schools were required to implement new "Redbook" Accounting Procedures for Kentucky School Activity Funds effective July 1, 2013. Hopkins County provided mandatory Redbook training for all school principals and school finance secretaries.
- Food Services participated in the Community Eligibility Program that provided free breakfast and lunch for all elementary school children.
- All of Hopkins County Schools continued the PBIS program (Positive Behavioral Interventions and Supports).
- The Board approved an agreement with Kentucky Center for School Safety at EKU for access to the Safety Tipline, Online Prevention Program (STOP Tipline), that allows anonymous notification of bullying and violence to be reported to the school district.
- Litigation continued against all persons and legal entities that have potential liability or responsibility for the construction defects in the old Hopkins County Schools Career & Technology Center.
- The Board of Education voted on having one centrally located site for the new Hopkins County Schools Career & Technology Center.
- The Board approved the purchase of two new 72 passenger buses for fiscal year 2014.

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 of deteriorating.

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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 government's financial position. In the case of the District, assets exceeded liabilities by $19 million as of June 30, 2014.

The largest portion of the District's net position 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, 2014

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

	2013-2014FY	2012-2013FY
Current Assets	$ 14,739,389	$ 17,706,755
Noncurrent Assets	48,461,606	51,507,296
TOTAL ASSETS	**$ 63,200,995**	**$ 69,214,051**
Current Liabilities	$ 7,851,329	$ 7,957,687
Noncurrent Liabilities	36,294,476	38,821,796
TOTAL LIABILITIES	**$ 44,145,805**	**$ 46,779,483**
Net Position		
Investment in Capital Assets (Net of Debt)	$ 10,308,106	$ 11,668,078
Restricted for:		
Capital Projects	$ 3,852,014	$ 4,205,696
Debt Service	370,913	354,505
Technology	-	-
Unrestricted Fund Balance	4,524,157	6,206,289
Total Net Position	**$ 19,055,190**	**$ 22,434,568**

COMMENTS ON BUDGET COMPARISONS

- The District's total revenues for the fiscal year ended June 30, 2014 net of inter fund transfers, were $66.4 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. The budget for district employee benefits was adjusted based on the increased cost of employer portion of benefits including retirement,
    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, 2014

	2013-2014FY	2012-2013FY
GENERAL REVENUES		
Property Taxes	$ 12,708,542	$ 13,473,163
Motor Vehcile Taxes	1,711,847	1,627,555
Unmined Mineral Taxes	512,947	378,573
Other Taxes	223,608	68,180
Intergovernmental - Local	113,391	113,379
Investment Earnings	62,822	74,574
Student Activities	38,684	8,268
Other Local Revenue	38,425	250,049
Gain (Loss) on Disposal of Capital Assets	178,124	23,173
State and Formula Grants	37,985,059	37,880,533
PROGRAM REVENUES		
Charges for Services	752,146	797,559
Operations Grants and Contributions	9,550,001	9,240,904
Capital Grants and Contributions	2,551,297	3,226,554
TOTAL REVENUES	**$ 66,426,893**	**$ 67,162,464**
EXPENSES		
Instruction	38,916,609	39,351,551
Student Support	2,320,832	2,216,270
Instruction Staff Support	2,219,470	2,452,188
District Administrative Support	1,418,036	1,930,875
School Administrative Support	3,608,647	3,630,545
Business Support	1,657,937	1,590,699
Plant Operations and Maintenance	8,153,391	7,065,381
Student Transportation	3,878,604	3,701,460
Other Instructional	16,503	50,085
Impairment of Capital Assets	-	6,464,645
Community Services Activities	624,191	705,421
Interest on Long-Term Debt	1,186,638	1,312,549
Amortization of Bond Costs	43,292	69,263
Food Services	3,718,772	3,767,251
Child Care	185,537	206,648
TOTAL EXPENSES	**$ 67,948,459**	**$ 74,514,831**
Changes in Net Position	$ (1,521,566)	$ (7,352,367)
Prior period adjustments	$ (1,857,812)	$ -
Net Position, Beginning	$ 22,434,568	$ 29,786,935
Net Position, Ending	$ 19,055,190	$ 22,434,568

GENERAL FUND REVENUE
Total Revenues are $52,171,150. The majority of revenue was derived from State Funding - $38,011,822 or 72%, Local Funding makes up $14,037,059 or 27%, and other revenues of $122,269 or 1 %. Compared to prior year, State Funding increased by $117,397 and Local Funding declined by $639,691 showing how maintaining property tax rates at the same level for many consecutive years has caused Local Funding to decrease. The small increase in State Funding shows how the demand on local support is increasing each year.

BUDGET ALLOCATION
Approximately 81% 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 78% 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 $44,846,088 regular instruction and $2,219,470 instructional support staff.

DISTRICT SUPPORT SERVICES ALLOCATION
Among the central support services expenses are Transportation $3,878,604, Maintenance and Operation $8,153,391, and District Administrative and Business Functions $3,075,973.

FUND BALANCE
Beginning fund balance was $6,609,470, Revenues $52,171,150, Expenses $54,425,899, and total other funding sources (uses) of $(8,685) for a net change in fund balance of $(2,263,434) to reflect an ending fund balance for Fiscal Year 2013-17 of $4,346,036.

BUSINESS TYPE ACTIVITIES
Food Services ended the year with Total Assets of $1,228,383 and Total Liabilities of $209,924 which left them with Total Net Position of $1,018,459. This compares to Total Net Position of $1,169,097 for the previous year-end which is a decrease of $150,638. The Food Service Fund had Total Operating Revenues of $507,651 versus $603,028 for the previous year. Total Nonoperating Revenues which include Federal and State Grants amounted to $3,148,319 versus $3,105,749 for the previous year.

OTHER FUNDS
Fund 2 contains all of the state and federal grants and a decline in grant funding is expected 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 $2.5 million in contingency. The beginning fund balance for fiscal year 2015 is $4.3 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.
Questions regarding this report should be directed to Linda Q. Zellich, Superintendent or Eydie L. Tate, Director of Finance (270) 825-6000 or by mail at 320 South Seminary Street, Madisonville, KY 42431.

HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$6,461,175	$1,120,267	$7,581,442
Receivables:			
Taxes	140,000		140,000
Accounts receivable	433,239	50,386	483,625
Intergovernmental – State	66,448		66,448
Intergovernmental – Indirect federal	1,542,841		1,542,841
Inventories	241,195	59,687	300,882
Prepaid expenses	55,670		55,670
Restricted investments	370,913		370,913
Restricted cash	4,197,568		4,197,568
Capital assets, net of accumulated depreciation	47,940,825	54,083	47,994,908
Total Assets	61,449,874	1,284,423	62,734,297
Deferred Outflows of Resources			
Deferred savings from refunding bonds	466,698		466,698
Total Deferred Outflows	466,698	0	466,698
Liabilities			
Accounts payable	110,832	121	110,953
Accrued payroll and related expenses	3,310,037	168,975	3,479,012
Accrued interest payable	229,250		229,250
Unearned revenue	1,029,546	22,062	1,051,608
Current portion of bond obligations	2,845,000		2,845,000
Current portion of accrued sick leave	129,858	5,648	135,506
Current portion of insurance assessment	75,369		75,369
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	34,850,000		34,850,000
Noncurrent portion of accrued sick leave	1,108,866	23,972	1,132,838
Insurance assessment	236,269		236,269
Total Liabilities	43,925,027	220,778	44,145,805
Net Position			
Net investment in capital assets	10,254,023	54,083	10,308,106
Restricted for:			
Capital projects	3,852,014		3,852,014
Debt service	370,913		370,913
Unrestricted	3,514,595	1,009,562	4,524,157
Total Net Position	$17,991,545	$1,063,645	$19,055,190

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

HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities	Net (Expense) Revenues and Changes in Net Position: Business-Type Activities	Net (Expense) Revenues and Changes in Net Position: Total
Governmental Activities:							
Instruction	$38,916,609	$122,269	$4,694,744		($34,099,596)		($34,099,596)
Support services:							
Student	2,320,832		276,253		(2,044,579)		(2,044,579)
Instruction staff	2,219,470		703,769		(1,515,701)		(1,515,701)
District administrative	1,418,036				(1,418,036)		(1,418,036)
School administrative	3,608,647				(3,608,647)		(3,608,647)
Business	1,657,937		9,667		(1,648,270)		(1,648,270)
Plant operation and maintenance	8,153,391		50,765		(8,102,626)		(8,102,626)
Student transportation	3,878,604				(3,878,604)		(3,878,604)
Other instructional	16,503		6,957		(9,546)		(9,546)
Facilities acquisition and construction		800		$2,301,339	2,302,139		2,302,139
Community service activities	624,191		611,833		(12,358)		(12,358)
Interest on long-term debt	1,186,638			249,958	(936,680)		(936,680)
Amortization of deferred savings	43,292				(43,292)		(43,292)
Total governmental activities	64,044,150	123,069	6,353,988	2,551,297	(55,015,796)	-	(55,015,796)
Business-Type Activities:							
Food service	3,718,772	507,651	3,145,580			($65,541)	(65,541)
Child care	185,537	121,426	50,433			(13,678)	(13,678)
Total business-type activities	3,904,309	629,077	3,196,013	-	-	(79,219)	(79,219)
Total primary government	$67,948,459	$752,146	$9,550,001	$2,551,297	(55,015,796)	(79,219)	(55,095,015)
General Revenues:							
Taxes:							
Property taxes					12,708,542		12,708,542
Motor vehicle taxes					1,711,847		1,711,847
Unmined mineral taxes					512,947		512,947
Other					223,608		223,608
Intergovernmental - local					113,391		113,391
Investment earnings					59,579	3,243	62,822
Student activities					38,684		38,684
Other local revenue					38,425		38,425
Gain (loss) on disposal of capital assets					178,124		178,124
State and formula grants					37,985,059		37,985,059
Change in net position					(1,445,590)	(75,976)	(1,521,566)
Net position, July 1, 2013, as originally reported					21,207,111	1,227,457	22,434,568
Prior period adjustments					(1,769,976)	(87,836)	(1,857,812)
Net position, July 1, 2013, as restated					19,437,135	1,139,621	20,576,756
Net position, June 30, 2014					$17,991,545	$1,063,645	$19,055,190

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

HOPKINS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$6,461,175				$6,461,175
Receivables:					
Taxes	140,000				140,000
Accounts receivable	433,239				433,239
Intergovernmental - State					-
Intergovernmental - Indirect federal		$1,542,841			1,542,841
Due from other funds	866,334				866,334
Prepaid expenses	3,500			$52,170	55,670
Restricted investments				370,913	370,913
Restricted cash	56,062		$4,141,506		4,197,568
Total Assets	$7,960,310	$1,542,841	$4,141,506	$423,083	$14,067,740
Liabilities					
Accounts payable	$104,772	$6,060			$110,832
Accrued payroll and related expenses	2,870,366	439,671			3,310,037
Retainage payable					-
Current portion of accrued sick leave	129,858				129,858
Unearned revenue	509,278	520,268			1,029,546
Due to other funds		576,842	$289,492		866,334
Total Liabilities	3,614,274	1,542,841	289,492	-	5,446,607
Fund Balances					
Nonspendable:					
Prepaid expenses	3,500			$52,170	55,670
Restricted:					
Capital projects			3,852,014		3,852,014
Debt service				370,913	370,913
Committed:					
Site-base carryforward	181,554				181,554
Assigned:					
Encumbrances	2,250				2,250
Unassigned:					
General fund	4,158,732				4,158,732
Total Fund Balances	4,346,036	-	3,852,014	423,083	8,621,133
Total Liabilities and Fund Balances	$7,960,310	$1,542,841	$4,141,506	$423,083	$14,067,740

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, 2014

Amounts reported for governmental activities in the statement of net position are different because:	
Total fund balance - governmental funds	$8,621,133
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	241,195
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.	47,940,825
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.	533,146
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.	(39,344,754)
Net position of governmental activities	$17,991,545

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, 2014

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues:					
From local sources.					
Taxes:					
Property	$11,402,569			$1,305,973	$12,708,542
Motor vehicle	1,711,847				1,711,847
Unmined mineral	512,947				512,947
Other	223,608				223,608
Earnings on investments	29,387	$1,752	$12,033	16,407	59,579
Student activities	30,092	8,592			38,684
Other local revenues	13,218	26,007			39,225
Intergovernmental - Local	113,391				113,391
Intergovernmental - State	38,011,822	2,059,978		2,551,297	42,623,097
Intergovernmental - Indirect federal		4,158,596			4,158,596
Intergovernmental - Direct federal	122,269	135,414			257,683
Total revenues	52,171,150	6,390,339	12,033	3,873,677	62,447,199
Expenditures:					
Current:					
Instruction	34,129,811	4,890,998			39,020,809
Support services:					
Student	1,988,895	221,581			2,210,476
Instruction staff	1,514,166	703,769			2,217,935
District administrative	1,174,521				1,174,521
School administrative	3,591,397				3,591,397
Business	1,648,270	4,694			1,652,964
Plant operation and maintenance	6,682,348	50,765			6,733,113
Student transportation	3,686,646				3,686,646
Other instructional	9,546	6,957			16,503
Community service activities	299	611,833			612,132
Capital outlay:					
Facilities acquisition and construction			365,715		365,715
Debt service:					
Principal				2,730,000	2,730,000
Interest				1,216,965	1,216,965
Issuance costs				-	0
Total expenditures	54,425,899	6,490,597	365,715	3,946,965	65,229,176
Excess (deficiency) of revenues over (under) expenditures	(2,254,749)	(100,258)	(353,682)	(73,288)	(2,781,977)
Other Financing Sources (Uses)					
Proceeds from bonds issued				-	0
Payment to refunded bond escrow agent				-	0
Premium on bonds issued				-	0
Discount on bonds issued				-	0
Proceeds from disposal of fixed assets	178,124				178,124
Transfers in		100,258		2,990,709	3,090,967
Transfers out	(186,809)			(2,904,158)	(3,090,967)
Total other financing sources (uses)	(8,685)	100,258	0	86,551	178,124
Net change in fund balance	(2,263,434)	0	(353,682)	13,263	(2,603,853)
Fund balance, July 1, 2013	6,609,470	0	4,205,696	409,820	11,224,986
Fund balance, June 30, 2014	$4,346,036	$0	$3,852,014	$423,083	$8,621,133

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, 2014

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ (2,603,853)
Inventory is expensed under the purchases method in the fund financial statements, but must be reported as assets in the statement of net position	21,007
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.	(1,787,039)
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.	-
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	(43,292)
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to increase (decrease) net position.	(8,928)
Bond 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.	2,730,000
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.	-
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.	26,763
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.	140,030
Payments on the insurance assessment are expensed in the fund financial statements, but are reductions in liabilites in the statement of net position.	79,722
Change in net position of governmental activities	$ (1,445,590)

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

HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Food Service Fund	Child Care Fund	Total
Assets			
Current assets			
Cash and cash equivalents	$1,064,227	$56,040	$1,120,267
Inventory	59,687		59,687
Accounts receivable			
Intergovernmental - Indirect federal			0
Other, net	50,386		50,386
Total current assets	1,174,300	56,040	1,230,340
Noncurrent assets			
Capital assets	1,034,743		1,034,743
Less: Accumulated depreciation	(980,660)		(980,660)
Total noncurrent assets	54,083	-	54,083
Total assets	1,228,383	56,040	1,284,423
Liabilities			
Current liabilities			
Accounts payable	4	117	121
Accrued payroll and related expenses	158,238	10,737	168,975
Current portion - accrued sick leave	5,648		5,648
Unearned revenue	22,062		22,062
Total current liabilities	185,952	10,854	196,806
Noncurrent liabilities			
Accrued sick leave	23,972		23,972
Total noncurrent liabilities	23,972	-	23,972
Total liabilities	209,924	10,854	220,778
Net Position			
Net investment in capital assets	54,083		54,083
Unrestricted	964,376	45,186	1,009,562
Total net position	$1,018,459	$45,186	$1,063,645

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, 2014

	Food Service Fund	Child Care Fund	Total
Operating Revenues:			
Lunchroom sales	$425,392		$425,392
Community service activities		$121,426	121,426
Other operating revenues	82,259		82,259
Total operating revenues	507,651	121,426	629,077
Operating Expenses:			
Salaries and wages	1,168,378	103,886	1,272,264
Employee benefits	734,773	64,749	799,522
Contract services	67,477	3,831	71,308
Materials and supplies	1,723,963	13,071	1,737,034
Depreciation	24,181		24,181
Other operating expenses			0
Total operating expenses	3,718,772	185,537	3,904,309
Operating loss	(3,211,121)	(64,111)	(3,275,232)
Nonoperating Revenues (Expenses):			
Federal grants	2,689,237		2,689,237
State grants	456,343	50,433	506,776
Interest income	2,739	504	3,243
Total nonoperating revenues (expenses)	3,148,319	50,937	3,199,256
Change in net position	(62,802)	(13,174)	(75,976)
Net position, July 1, 2013, as originally reported	1,169,097	58,360	1,227,457
Prior period adjustment	(87,836)		(87,836)
Net position, July 1, 2013, as restated	1,081,261	58,360	1,139,621
Net position, June 30, 2014	$1,018,459	$45,186	$1,063,645

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, 2014

	Food Service Fund	Child Care Fund	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	$421,906		$421,906
Community service activities		$121,426	121,426
Other operating actvities	82,259		82,259
Cash paid to/for			
Employees	(1,509,403)	(121,132)	(1,630,535)
Supplies	(1,448,943)	(13,011)	(1,461,954)
Other activities	(67,477)	(3,831)	(71,308)
Net cash provided (used) by operating activities	(2,521,658)	(16,548)	(2,538,206)
Cash Flows from Noncapital Financing Activities			
Government grants	2,695,493	13,667	2,709,160
Insurance proceeds			-
Transfer in from other fund			-
Net cash provided (used) by noncapital financing activities	2,695,493	13,667	2,709,160
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	0		0
Net cash provided (used) by capital and related financing activities	0	-	0
Cash Flows from Investing Activities			
Receipt of interest income	2,739	504	3,243
Net cash provided (used) by investing activities	2,739	504	3,243
Net increase (decrease) in cash and cash equivalents	176,574	(2,377)	174,197
Balances, beginning of year	887,653	58,417	946,070
Balances, end of year	$1,064,227	$56,040	$1,120,267
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	($3,211,121)	($64,111)	($3,275,232)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	24,181		24,181
On-behalf payments	419,617	36,766	456,383
Commodities received	248,689		248,689
Change in assets and liabilities			
Receivables - other (net of prior period adjustment)	(4,436)		(4,436)
Inventory	26,382		26,382
Accounts payable	(51)	60	9
Accrued payroll & related expense	(4,354)	10,737	6,383
Accrued sick leave	(21,515)		(21,515)
Deferred revenue	950		950
Net cash provided (used) by operating activities	($2,521,658)	($16,548)	($2,538,206)
Schedule of non-cash transactions:			
Donated commodities received from federal government	$248,689		$248,689
Benefits paid by state of Kentucky on behalf of District	$419,617	$36,766	$456,383

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

HOPKINS COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	Agency Fund
Assets	
Cash and cash equivalents	$745,540
Accounts receivable	6,125
Total assets	$751,665
Liabilities	
Accounts payable	$11,551
Due to student groups	740,114
Total liabilities	$751,665

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

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.

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.

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.

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:

Description	Estimated Lives
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)

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) Accounts Receivable

An allowance for doubtful accounts is provided for accounts receivable in the Food Service Fund. Accounts receivable are reported net of this allowance, which was $46,414 as of June 30, 2014.

(f) 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 $248,689.

(g) Accrued Liabilities/Long-Term Obligations/Deferred Outflows of Resources

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 recorded as deferred outflows of resources (deferred savings from refunding bonds) in the government-wide financial statements and 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

2. Summary of Significant Accounting Policies, continued

(g) Accrued Liabilities/Long-Term Obligations/Deferred Outflows or Resources, continued

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.

(h) 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

2. Summary of Significant Accounting Policies, continued

(h) Net Position and Fund Balance, continued

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.

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.

(i) 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."

(j) 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.

(k) 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 employees with more than twenty 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.

(l) 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

2. Summary of Significant Accounting Policies, continued

(l) Encumbrance Accounting, continued

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.

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, 2014, the carrying amount of the District's deposits (excluding petty cash of $100) was $12,895,363 and the bank balance was $14,893,021. Of the bank balances, $1,334,250 was insured by federal depository insurance, $13,524,334 was covered by collateral held by the pledging bank's agent and $34,437 was federally insured by the National Credit Union Share Insurance Fund.

The District's deposits at June 30, 2014 consisted of the following:

	Bank Balance	Book Balance
Old National Bank - demand	$ 129,080	$ 124,493
US Bank - demand	107	107
Fifth Third Bank - demand	10,139,678	10,144,846
Hopkins County Credit Union - demand	34,437	34,437
First United Bank - demand	4,218,806	2,220,567
The Cecilian Bank - certificate of deposit	370,913	370,913
	$ 14,893,021	12,895,363
Restricted cash		(4,197,568)
Restricted investments		(370,913)
Unrestricted cash and cash equivalents		$ 8,326,882
Reported in the financial statements:		
Governmental funds: cash and cash equivalents (excluding petty cash of $100)		$ 6,461,075
Proprietary funds: cash and cash equivalents		1,120,267
Fiduciary funds: cash and cash equivalents		745,540
		$ 8,326,882

5. Restricted Cash and Investments

Restricted cash at June 30, 2014 consists of the following:

General Fund	
Flexible Spending Account	$ 56,062
Capital Projects Funds	
Construction Fund	4,141,506
Total Restricted Cash	$ 4,197,568

5. Restricted Cash and Investments, continued

Restricted investments at June 30, 2014 consists of the following:

Debt Service Fund (QZAB certificate of deposit)	$ 370,913

6. Capital Assets

During the year ended June 30, 2014, the following changes occurred in capital assets:

Governmental Activities:	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Not depreciated:				
Land and land improvements	$ 2,045,449	$ 19,894	$ 11,300	$ 2,054,043
Construction in progress	50,000	362,266		412,266
Totals not being depreciated	2,095,449	382,160	11,300	2,466,309
Depreciated:				
Buildings and improvements	68,413,647		146,460	68,267,187
Technology equipment	6,324,167	96,833	5,520,049	900,951
Vehicles	7,236,984	179,131	332,471	7,083,644
General equipment	4,539,064	140,338	626,644	4,052,758
Totals at historical cost	86,513,862	416,302	6,625,624	80,304,540
Less accumulated depreciation:				
Buildings and improvements	24,320,767	1,339,441	193,095	25,467,113
Technology equipment	4,478,026	605,867	4,382,959	700,934
Vehicles	4,768,264	500,941	332,471	4,936,734
General equipment	3,993,070	139,252	407,079	3,725,243
Total accumulated depreciation	37,560,127	2,585,501	5,365,579	34,830,024
Depreciated assets, net	48,953,735	(2,169,199)	1,260,045	45,474,516
Governmental Activities Capital Assets - Net	$ 51,049,184	$ (1,787,039)	$ 1,271,345	$ 47,940,825
Business-Type Activities:				
Depreciated:				
General equipment	$ 1,680,451	$ -	$ 653,857	$ 1,026,594
Technology equipment	15,117	-	6,968	8,149
Totals at historical cost	1,695,568	-	660,825	1,034,743
Less accumulated depreciation:				
General equipment	1,563,721	23,533	614,743	972,511
Technology equipment	12,161	648	4,660	8,149
Total accumulated depreciation	1,575,882	24,181	619,403	980,660
Business-Type Activities Capital Assets - Net	$ 119,686	$ (24,181)	$ 41,422	$ 54,083

6. Capital Assets, continued

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 424,373
Support services:	
Student	55,684
Instruction staff	1,535
District administrative	243,515
School administrative	17,250
Business	18,711
Plant operation and maintenance	1,420,278
Student transportation	392,096
Community service activities	12,059
Total depreciation expense	$ 2,585,501

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:

Issue	Original Amount	Interest Rates
Issue of 1996 (PES)	$ 465,000	4.30% - 5.00%
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 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.

7. Long-Term Debt, continued

Revenue Bonds, continued

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 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, 2014.

7. **Long-Term Debt, continued**

Revenue Bonds, continued

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 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, 2014.

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 as of June 30, 2014.

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).

7. Long-Term Debt, continued

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 recorded a liability of $311,638. The District expects to finance the Workers' Compensation liability portion through an interest free loan from KSBIT over 6 years after a 25% down payment. Payments expect to begin August 31, 2015.

Maturities

The annual debt service requirements to maturity for bonds payable as of June 30, 2014 are as follows:

	Hopkins County Board of Education		School Facilities Construction Commission		Total	Total	Total
	Interest	Principal	Interest	Principal	Interest	Principal	Requirement
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	$ 7,151,131	$ 30,416,053	$ 1,871,155	$ 7,278,947	$ 9,022,286	$ 37,695,000	$ 46,717,286

7. Long-Term Debt, continued

Maturities, continued

During the year ended June 30, 2014, the following changes occurred in the long-term debt:

Governmental activities:	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Revenue bonds:					
Issue of 1996 (PES)	$ 95,000	$ -	$ 25,000	$ 70,000	$ 35,000
Issue of 2003 (Energy)	395,000	-	195,000	200,000	200,000
Issue of 2004 (BSMS)	1,395,000	-	25,000	1,370,000	25,000
Issue of 2004 (QZAB)	500,000	-	-	500,000	-
Issue of 2005 (BSMS)	245,000	-	80,000	165,000	80,000
Issue of 2006 (PES)	1,185,000	-	65,000	1,120,000	70,000
Issue of 2007 (Refunding)	2,990,000	-	170,000	2,820,000	170,000
Issue of 2008 (Refunding)	770,000	-	185,000	585,000	190,000
Issue of 2009 (Energy)	4,345,000	-	210,000	4,135,000	215,000
Issue of 2009 (Refunding-var.)	1,755,000	-	260,000	1,495,000	265,000
Issue of 2011A (CTC)	8,725,000	-	165,000	8,560,000	220,000
Issue of 2011B (Refunding)	7,770,000	-	1,220,000	6,550,000	1,245,000
Issue of 2012 (Refunding-BSMS 2004)	9,040,000	-	110,000	8,930,000	110,000
Issue of 2013 (Refunding-BSMS 2005)	1,215,000	-	20,000	1,195,000	20,000
Total bonds payable	40,425,000	-	2,730,000	37,695,000	2,845,000
Compensated absences	1,348,426	5,289	115,245	1,238,470	129,858
Insurance assessment	401,521	-	89,883	311,638	75,369
	$ 42,174,947	$ 5,289	$ 2,935,128	$ 39,245,108	$ 3,050,227
Business-type activities:					
Compensated absences	$ 51,135	$ 3,072	$ 24,587	$ 29,620	$ 5,648

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

8. 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 Statues (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/.

8. Retirement Plans, continued

KTRS, continued

Contribution rates are established by KRS. Members are required to contribute 11.355% 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 $38,582,631. The payroll for employees covered under KTRS was $29,267,270. For the year ended June 30, 2014, the Commonwealth contributed $3,648,388 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2014, 2013 and 2012 were $665,335, $536,186, and $449,400, 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 1-502-696-8000.

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 18.89% 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, 2014, 2013 and 2012 were $1,705,778, $1,786,539, and $1,751,702, respectively, equal to the required contributions for each year.

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, 2014, employees of the District contributed $219,572 to 401(k) plans and $190,436 to 403(b) plans.

9. 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 $120,709 to these plans during the year ended June 30, 2014.

10. 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 1.5% of members' salary for the 2013-2014 fiscal year. The District's contribution to the Retiree Medical Insurance Fund for the years ending June 30, 2014, 2013 and 2012 were $412,400, $274,351 and $142,127, respectively.

11. 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.

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%), 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, 2014, was $9,150,102.

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 $11,391 during the year to the District and the balance of the obligation was $55,755 as of June 30, 2014. 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.

12. 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

12. Risk Management

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.

13. 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	$ 2,254,749
Construction Fund	$ 353,682
Food Service Fund	$ 62,802
Child Care Fund	$ 13,174

14. 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).

15. Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2014, is as follows:

Due from Fund	Due to Fund	Purpose	Amount
Construction Fund	General Fund	Reimbursements	$ 289,492
Special Revenue Fund	General Fund	Pooled cash account deficit	576,842
			$ 866,334

The following transfers were made during the year ended June 30, 2014:

From Fund	To Fund	Purpose	Amount
Nonmajor Governmental Funds:			
Capital Projects (FSPK)	Debt Service	Bond payments	$ 2,276,232
Capital Projects (SEEK)	Debt Service	Bond payments	627,926
General Fund	Debt Service	Bond payments	86,551
Total Nonmajor Governmental funds			2,990,709
General Fund	Special Revenue	Matching (KETS)	100,258
			$ 3,090,967

16. 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, 2014.

Project	Total Commitment	Incurred To Date	Commitment Remaining
Career and Technical Center-New Site (BG 14-103)	$ 11,629,677	$ 360,658	$ 11,269,019
MNHHS-Addition-Softball Field Restrooms (BG 14-131)	27,865	5,058	22,807
MNHHS-Baseball Building (BG 14-242)	98,860	-	98,860
Total	$ 11,756,402	$ 365,716	$ 11,390,686

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, these commitments have been transferred to a new BG-1 for construction of a new Center at a different location.

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

17. On-Behalf Payments

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2014. 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	$ 3,648,388
Health insurance, life insurance, administrative fee, health reimbursement account, net of federal reimbursements	7,018,572
Technology	67,190
Debt Service	953,112
Total On-Behalf Payments	$ 11,687,262
Reported in:	
General Fund	$ 10,277,767
Debt Service Fund	953,112
Food Service Fund	419,617
Child Care Fund	36,766
	$ 11,687,262

18. Changes in Beginning Net Position

Governmental Accounting Standards Board statement 65 required changes to the beginning balances fo the Statement of Net Position. Beginning net position of the governmental activities was decreased $498,631 to eliminate bond issue costs, which had been capitalized and amortized on previous statements.

The District changed its policy regarding the capitalization of fixed assets. The new policy creates a minimum capitalization threshold amount of $5,000. Accordingly, fixed assets with recorded costs of less than $5,000 have been deleted from the books, net of accumulated depreciation. The result of this change decreased beginning net position of the governmental funds by $1,271,345 and of the proprietary funds by $41,422.

The District determined that there was an error in the previously reported amount of accounts receivable in the Food Service Fund requiring the beginning net position of the Food Service Fund to be restated. Accounts receivable of $46,414 were considered to be uncollectable. This resulted in a $46,414 decrease to the beginning net position.

19. Subsequent Events

On June 16, 2014, the Hopkins County School District Finance Corporation approved a resolution relating to and providing for the issuance of $4,155,000 principal amount school building revenue bonds and $2,485,000 school building revenue bond anticipation notes to provide funds for the construction of the new career and technical center.

In July, 2014, $4,155,000 of Hopkins County School District Finance School Building Revenue Bonds and $2,485,000 of Hopkins County School District Finance Corporation Revenue Bond Anticipation Notes were closed and delivered. The District received the proceeds, net of issuance costs, in the amount of $6,394,645 on July 16, 2014.

Management has evaluated subsequent events through November 12, 2014, the date on which the financial statements were available to be issued.

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	$11,125,000	$11,125,000	$11,402,569	$277,569
Motor vehicle	1,325,000	1,325,000	1,711,847	386,847
Unmined mineral	200,000	200,000	512,947	312,947
Other	75,000	75,000	223,608	148,608
Earnings on investments	25,000	25,000	29,387	4,387
Student activities			30,092	30,092
Other local revenues	5,520	5,520	13,218	7,698
Intergovernmental - Local	11,000	11,000	113,391	102,391
Intergovernmental - State	27,013,286	27,013,286	27,734,055	720,769
Intergovernmental - Direct Federal	40,000	40,000	122,269	82,269
Total revenues	39,819,806	39,819,806	41,893,383	2,073,577
Expenditures:				
Current:				
Instruction	26,200,131	26,200,285	27,005,410	(805,125)
Support Services:				
Student	1,534,478	1,531,181	1,623,534	(92,353)
Instruction staff	1,312,498	1,300,100	1,208,496	91,604
District administrative	1,620,390	1,620,390	1,136,331	484,059
School administrative	2,939,870	2,894,103	2,828,285	65,818
Business	1,338,267	1,338,267	1,292,038	46,229
Plant operation and maintenance	5,665,262	5,665,262	5,973,826	(308,564)
Student transportation	2,938,917	2,938,917	3,070,367	(131,450)
Other instructional	59,824	121,132	9,546	111,586
Community service activities			299	(299)
Debt service:				
Principal				0
Interest				0
Issuance costs				-
Total expenditures	43,609,637	43,609,637	44,148,132	(538,495)
Excess (deficit) of revenues over expenditures	(3,789,831)	(3,789,831)	(2,254,749)	1,535,082
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets			178,124	178,124
Operating transfers in				0
Operating transfers out	(275,521)	(275,521)	(186,809)	88,712
Contingency	(2,500,000)	(2,500,000)		2,500,000
Total other financing sources (uses)	(2,775,521)	(2,775,521)	(8,685)	2,766,836
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(6,565,352)	(6,565,352)	(2,263,434)	4,301,918
Fund balance, July 1, 2013	6,565,352	6,565,352	6,609,470	44,118
Fund balance, June 30, 2014	$ -	$ -	$4,346,036	$4,346,036

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources.				
Earnings on investments			$1,752	$1,752
Student activities			8,592	8,592
Other		$ 26,007	26,007	0
Intergovernmental - State	$ 2,053,095	2,060,885	2,059,978	(907)
Intergovernmental - Indirect federal	4,070,215	4,199,445	4,158,596	(40,849)
Intergovernmental - Direct federal	107,587	107,588	135,414	27,826
Total revenues	6,230,897	6,393,925	6,390,339	(3,586)
Expenditures:				
Current:				
Instruction	5,453,760	4,837,616	4,890,998	(53,382)
Support services:				
Student	253,909	264,959	221,581	43,378
Instruction staff	27,055	785,462	703,769	81,693
District administrative				-
School administrative				-
Business	5,020	5,020	4,694	326
Plant operation and maintenance	27,253	27,753	50,765	(23,012)
Student transportation	4,325	4,325		4,325
Central office				-
Other instructional		6,957	6,957	-
Community services	609,575	611,833	611,833	-
Capital outlay:				
Facilities acquisition and construction				-
Total expenditures	6,380,897	6,543,925	6,490,597	53,328
Excess (deficit) of revenues over expenditures	(150,000)	(150,000)	(100,258)	49,742
Other Financing Sources (Uses):				
Proceeds from sale of assets				-
Operating transfers in	150,000	1,168,084	100,258	(1,067,826)
Operating transfers out		(513,360)		513,360
Total other financing sources (uses)	150,000	654,724	100,258	(554,466)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	504,724	0	(504,724)
Fund balance, July 1, 2013	-	69,912	0	69,912
Fund balance, June 30, 2014	$ -	$ 574,636	$ -	$ (434,812)

HOPKINS COUNTY SCHOOL DISTRICT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS

FOR THE YEAR ENDED JUNE 30, 2014

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. For the year ended June 30, 2014, the Kentucky Department of Education permits, but does not require, Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

General Fund:	Budget Basis	GAAP Basis	Difference
Revenues:			
Intergovernmental-state	$ 27,734,055	$ 38,011,822	$ 10,277,767
Expenditures:			
Instruction	27,005,410	34,129,811	7,124,401
Support services:			
Student	1,623,534	1,988,895	365,361
Instructional staff	1,208,496	1,514,166	305,670
District administration	1,136,331	1,174,521	38,190
School administration	2,828,285	3,591,397	763,112
Business	1,292,038	1,648,270	356,232
Plant operation and maintenance	5,973,826	6,682,348	708,522
Student transportation	3,070,367	3,686,646	616,279

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, 2014

	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			$ 52,170	$ 52,170
Restricted investments			370,913	370,913
Restricted cash	$ -	$ -	-	-
Total assets	$ -	$ -	$ 423,083	$ 423,083
Liabilities				
Accounts payable				$ -
Due to other funds			-	-
Total liabilities	-	-	-	-
Fund Balances				
Nonspendable:				
Prepaid expenses			$ 52,170	$ 52,170
Restricted for:				
Capital projects	$ -	$ -		-
Debt service			370,913	370,913
Total fund balances	-	-	423,083	423,083
Total liabilities and fund balances	$ -	$ -	$ 423,083	$ 423,083

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	$1,305,973			$1,305,973
Earnings on investments		$0	$16,407	16,407
Intergovernmental - State	970,259	627,926	953,112	2,551,297
Total revenues	2,276,232	627,926	969,519	3,873,677
Expenditures:				
Capital outlay:				
Facilities acquisition and construction				-
Debt Service:				
Principal			2,730,000	2,730,000
Interest			1,216,965	1,216,965
Bond issuance costs			0	0
Total expenditures	-	-	3,946,965	3,946,965
Excess (deficit) of revenues over expenditures	2,276,232	627,926	(2,977,446)	(73,288)
Other Financing Sources (Uses)				
Bonds issued			0	0
Payment to refunded bond escrow agent			0	0
Premium on bonds issued				-
Discount on bonds issued			0	0
Transfers in			2,990,709	2,990,709
Transfers out	(2,276,232)	(627,926)	0	(2,904,158)
Total other financing sources (uses)	(2,276,232)	(627,926)	2,990,709	86,551
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	13,263	13,263
Fund balance, July 1, 2013			409,820	409,820
Fund balance, June 30, 2014	$ -	$ -	$423,083	$423,083

COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

School	Cash Balances July 1, 2013	Receipts	Disburse-ments	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2014
Hopkins County Central High	$242,283	$416,806	$414,972	$244,117	$6,000	$8,254	$241,863
Madisonville North Hopkins High	146,584	479,800	426,074	200,310		1,725	198,585
	388,867	896,606	841,046	444,427	6,000	9,979	440,448
ADTP	209	154	255	108			108
Career and Technical Center	2,795	1,178	0	3,973			3,973
Browning Springs Middle	22,854	43,995	50,765	16,084			16,084
Central Office - various*	5,454	761	2,117	4,098			4,098
Earlington Elementary	13,385	26,921	28,999	11,307			11,307
Grapevine Elementary	12,005	33,437	36,693	8,749			8,749
Hanson Elementary	35,148	47,883	51,865	31,166			31,166
James Madison Middle	67,072	123,953	125,441	65,584			65,584
Jesse Stuart Elementary	8,446	36,200	34,433	10,214		642	9,572
Pride Elementary	14,836	65,177	65,578	14,435	125	705	13,855
Southside Elementary	31,670	37,249	40,634	28,286			28,286
South Hopkins Middle	62,272	136,053	142,941	55,384			55,384
West Broadway Elementary	17,868	8,523	2,529	23,862		225	23,637
West Hopkins	22,995	50,333	45,463	27,865			27,865
	$705,876	$1,508,422	$1,468,758	$745,540	$6,125	$11,551	$740,114

* 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, 2014

	Cash Balances July 1, 2013	Receipts	Disburse-ments	Transfers	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2014
Academic Team	$151	$148	$63		$236			$236
Air Force ROTC	14				14			14
AP Test	8,183	10,670	$10,658		8,195		$ 73	8,122
Archery Club	7,012	17,994	22,000	$ (76)	2,930			2,930
Art	977		119		858			858
Art Club	275	240		(125)	390			390
Athletic Dept.	9,079	58,188	78,150	22,484	11,600	$ 6,000	1,470	16,130
Band	430	7,132	7,940	595	217			217
Baseball	0	801	1,071	270	0			0
Beta Club	790	2,104	1,039	(500)	1,355			1,355
Bookstore	1,609	12,339	12,594	323	1,678			1,678
Boys Basketball	1,341	15,839	16,904	252	529			529
Business Dept.	154	200	400	50	4			4
Change	0	2,300	2,300		0			0
Cheerleaders	3,316	9,683	12,088	1,715	2,626		637	1,989
Chorus	4,235	6,724	7,661	(75)	3,224			3,224
Concessions	37,120	23,171	13,623	(35,665)	11,003			11,003
Cross Country	105	2,968	2,311	423	1,185			1,185
Custodial Acct	646	54	344	(100)	256			256
Dance Squad	15	15,134	17,688	2,756	217			217
Decals	88			(88)	0			0
Drama	354		50	(70)	234			234
Driver education	13,388	4,930	1,719	(12)	16,587			16,587
Embroidery	101	75	40	40	176			176
Employee of the Month	827		25		802			802
Exceptional Entre.	25			(25)	0			0
Extended School	3,706	240			3,946			3,946
Fan Club	141				141			141
F.B.L.A.	1,941	315	706		1,550			1,550
F.C.A.	75	715	695		96			96
F.F.A.	678	32,411	33,704	1,417	803		381	422
F.C.C.L.A.	71	192	114	50	199			199
Football	704	6,675	5,521	1,543	3,401			3,401
(4)Four H Club	558	759	615		702			702
Freshman Class	0	1,240		(25)	1,215			1,215
Girls Basketball	6,477	6,051	12,388	214	353			353
Girls Volleyball	270			1,550	1,820			1,820
Golf Girls	223		308	320	236			236
Golf Boys	502	7,165	2,383	678	5,962			5,962
Greenhouse	0	10,679	6,715	(1,500)	2,465			2,465
Guidance Testing	947	381	580		749			749
Hall of Fame	277	645	1,388	750	284			284
Holiday BB Tourn.	116			(116)	(0)			(0)
Home Ec	1,038	1,539	1,370	(90)	1,117			1,117
HOSA	2,304	7,232	8,969		567			567
Instructional	3,664	8,219	8,177		3,706			3,706
Kenny Harris	0		250	250	0			0
MCLC	35				35			35
Media Center	72	188	139		121			121
Miscellaneous	7,601	4,357	3,348	225	8,835			8,835
National Honor Society	1,639	845	767	(150)	1,567			1,567
Olympic Field Day	5,294	4,249	4,865	428	5,106			5,106
Outdoorsmen's Club	258	130	150		238			238
PBIS	54	1,282	137		1,199			1,199
Pep Club	1	2,446	2,589	142	0			0
Project Grad.	431	8,630	2,809	(304)	5,948		5,493	455
ROTC Cadets	4,708	33,366	31,578	(327)	6,169			6,169
Science & Math Club	2,003	460		(150)	2,313			2,313
Second Region AD	818		818		0			0
Sophomore Class	995	1,205			2,200			2,200
Senior Trip	7	20,225	21,124	892	0			0
Senior Class	2,136	70	2,020	(188)	0			0
Shout Outs	5				5			5
Soccer Boys	923	330	1,108	462	608			608
Soccer Girls	1,109			431	1,540			1,540
Softball	979	452	500	387	1,318			1,318
Junior Class	2,055	8,219	7,445		2,829			2,829
South Hopkins	518	82	600		(0)			(0)
Spanish Club	132	713	629	100	316			316
STLP	0	847	836		11			11
Storm Hoops Banner	100				100			100
Student Vending	5,884	1,400	385		6,900		200	6,700
Swim	550	809	947	466	878			878
Teacher Vending	2,399	2,257	1,762	(45)	2,829			2,829
Tennis	1,132	653	729	125	1,181			1,181
Textbook Rental	69,847	22,804	3,912		88,739			88,739
Track	1,132	2,589	2,623	141	1,239			1,239
TSA	91				91			91
Yearbook	6,927	17,670	22,370		2,228			2,228
YSC TOP	489		111	(150)	228			228
Youth Service Center	8,030	5,375	7,985	300	5,720			5,720
TOTAL	$242,283	$416,806	$414,972	$0	$244,117	$8,000	$8,254	$241,863

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MADISONVILLE NORTH HOPKINS HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balances July 1, 2013	Receipts	Disburse-ments	Transfers	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2013
Academic Team	$0	$186	$186		$0			$0
Administrative	5,645	8,289	8,877	$4,544	9,611		$150	9,461
Adv Leadership	41				41			41
Agri Consumables	11	603			614			614
Annual	2,629	15,147	13,841	255	4,190			4,190
Archery	137	2,449	2,424	30	192			192
Art Club	62				62			62
Art Department	314	680	793	250	452			452
Athletic Dept.	13	67,035	70,589	$4,721	1,180			1,180
Athletic Extras	5,500	79,725	47,099	(29,940)	8,186			8,186
Band	222	44,915	43,929	875	2,083			2,083
Baseball Program	26	5,580	5,654	100	52			52
Basketball Boys	594	250	753	160	251			251
Beta Club	385	840	1,030		195			195
Beta Delta	1,919	1,118	920		2,117			2,117
Boys & Girls Cross Country	273	8,044	4,190	560	4,687			4,687
Boys Track	70	4,604	4,028	415	1,061			1,061
Brag Tags	731	605	1,065	100	371			371
Business Dept.	435	2,432	2,133	230	964			964
Cheerleaders	234			80	314			314
Chemistry Club	120				120			120
Chess Club	111				111			111
Chem. Safety Equip.	115	546			661			661
Coke Machine	5,001	2,050	4,341	75	2,785			2,785
Culinary Skills	1,633	1,595	1,569	69	1,728			1,728
Dance Team	1,081	1,300	3,065	1,700	1,016			1,016
Distributive Education	1,634				1,634			1,634
Donan Scholarship	500				500			500
Drafting/North Eng	0	24			24			24
Drama	1,068	4,545	1,612		4,001			4,001
Dream Team	330	1,503	980		853			853
Drivers Training	25,246	7,475	11,488	5,000	26,233			26,233
English Dept.	726		943	250	33			33
Faculty Fund	1,140	2,080	3,129		91			91
Fellowship of Christian Ath.	359				359			359
F.B.L.A.	0	11,602	11,491	(110)	1			1
F.F.A.	800	20,157	21,978	1,979	958		110	848
F.F.A. Greenhouse	1,847	7,735	3,420	(1,774)	4,189			4,189
F.H.A.	116	3,959	3,974	250	351			351
Food Products	212	187	79		321			321
Football Fund	150	1,045	438	140	897			897
Girls Basketball	1,385		25	690	2,050			2,050
Girls Softball	261		176	160	245			245
Girls Track	423	416	498	185	527			527
Glee Club	448	15,240	15,351	470	807			807
Golf Program	701	2,621	1,209	60	2,173			2,173
Guidance	8,228	23,998	23,303		8,923			8,923
Health Occup.	785	3,885	4,215	206	661			661
Home Economics Dept	24				24			24
Hosg/Sarles	3,500				3,500			3,500
Industrial Arts	316	5,789	5,811	230	526			526
Incentive Program	128	55	40		143			143
Key Club	752	6,565	6,284		1,033		325	708
Letterman Association	1,510	2,350	2,587		1,273			1,273
Library	318	10			328			328
Locker Fund	1,355	6,997	6,109		2,243		20	2,223
Lost Book	1,597	240	446		1,391			1,391
Math Department	0			250	250			250
Modern Foreign Language	568		161	250	657			657
Multi Culture Club	187				187			187
Not in my School	12		(75)		87			87
NOW Account	297	18			315			315
NJRROTC	6,547	7,022	8,651	250	5,168		919	4,249
PBIS	25	2,472	1,711	4,762	5,548			5,548
PE	833	379		250	1,462			1,462
PEP Club	356				356			356
Project Graduation	2,495	11,590	11,635	1,750	4,200			4,200
Science Club	186				186			186
2nd Region Ad	-	1,913	1,627		285			285
Seniors 2015	2,574	14,982	13,278	750	5,028		201	4,827
Seniors 2013	1,902			(1,902)	(0)			(0)
Seniors 2014	4,724	1,115	2,220	(3,619)	0			0
Seniors 2016	1,385	2,452	948	1,000	3,889			3,889
Seniors 2017	-	2,445	937	1,000	2,508			2,508
Senior Trips	2,323	200	200		2,323			2,323
Soccer Girls	324		151	120	293			293
Soccer Boys	1,485		208	120	1,397			1,397
Social Studies	1,268			250	1,518			1,518
Sports Marketing	1,716				1,716			1,716
Spanish Club	765		100		665			665
SSF	567	390			957			957
Student Emergency Fund	414				414			414
Student Y	378		83		295			295
Spanish Text Book	131				131			131
Student Textbook	3,230	40,741	21,136		22,835			22,835
Student Textbooks Science	3,059	179	454	250	3,034			3,034
Student Government	13				13			13
Summer School	3,596	840	172		4,264			4,264
Swimming Scholarship	992	1,000		100	2,092			2,092
T.A.P	59				59			59
Tennis	5	1,533	1,655	120	2			2
Textbooks DE store	4,276	10,260	13,748	220	1,008			1,008
Toyota Athletic	8,442				8,442			8,442
Triple M	606		296	75	385			385
Volleyball	944	100	797	100	347			347
Young Educators	20				20			20
Youth Service Center	6,917	3,689	3,910	1,944	8,640			8,640
TOTAL	$146,584	479,800	426,074	$0	$200,310	$0	$1,725	$198,585

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005-14	$ 455,461
		7760005-13	136,139
			591,600
NATIONAL SCHOOL LUNCH PROGRAM			
CASH ASSISTANCE	10.555	7750002-14	1,448,802
		7750002-13	385,424
NONCASH ASSISTANCE - COMMODITIES (Note C)		Fund 51	248,689
			2,082,915
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7690024-13	707
		7740023-13	6,739
			7,446
TOTAL CHILD NUTRITION CLUSTER			2,681,961
TOTAL U.S. DEPARTMENT OF AGRICULTURE			2,681,961
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
GRANTS TO LOCAL EDUCATION AGENCIES	84.010	3100002-12	673,162
		3100002-13	1,594,960
		3100002-11	1,378
		3100202-13	45,643
TOTAL TITLE I CLUSTER			2,315,143
MIGRANT EDUCATION-STATE GRANT PROGRAM	84.011	3110002-11	37,543
			37,543
SPECIAL EDUCATION CLUSTER:			
GRANTS TO STATES (IDEA, PART B)	84.027	3810002-12	1,050,845
			1,050,845
PRESCHOOL GRANTS (IDEA PRESCHOOL)	84.173	3800002-12	74,577
		3800002-13	3,197
			77,774
TOTAL SPECIAL EDUCATION CLUSTER			1,128,619
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002-12	101,028
		3230002-13	305,383
		3230003-12	263
			406,674

HOPKINS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
U.S. DEPARTMENT OF EDUCATION, CONTINUED			
VOCATIONAL EDUCATION BASIC GRANTS TO STATES	84.048	3710006-13	83
		3710002-13	78,094
		4621332-13	4,189
			82,366
TITLE VI RURAL AND LOW INCOME	84.358	3140002-12	92,027
		3140002-13	49,153
			141,180
TITLE III CONS PD	84.365	3300001-13	5,614
RACE TO THE TOP	84.413	3960002-11	25,538
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	16,000
TOTAL U.S. DEPARTMENT OF EDUCATION			4,158,677
U.S. DEPARTMENT OF DEFENSE			
ROTC	1010-13	PROJ 6044	76,312
AFROTC		PROJ 6044	59,102
TOTAL U.S. DEPARTMENT OF DEFENSE			135,414
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 6,976,052

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, 2014. 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 position, 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: Medicaid Reimbursements:
Although reported in the financial statements as direct federal revenue, medicaid reimbursements ($17,774) are not considered expenditures of federal awards for the purposes of this schedule.

HOPKINS COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2014

Board Members	Address	Term Expires
Steve Faulk Chairman	Madisonville, Kentucky	December 31, 2018
Suzanne Duncan Vice-Chairman	Nortonville, Kentucky	December 31, 2016
Shannon Embry	Madisonville, Kentucky	December 31, 2016
Randy Franklin	Madisonville, Kentucky	December 31, 2016
Michael Morgan	Nebo, Kentucky	December 31, 2018

Administrative Personnel

Linda Q. Zellich - Superintendent

Deandra Ashby – Assistant Superintendent

Shari Winstead – Assistant Superintendent

Steve Gilliam – Assistant Superintendent

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

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

Marci Cox – Director of Pupil Transportation

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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 State Committee for School District Audits' Fiscal year 2013-2014 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, 2014, and the related notes to the financial statements, which collectively comprise the Hopkins County Board of Education's basic financial statements and have issued our report thereon dated November 12, 2014.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 State Committee for School District Audits' Fiscal Year 2013-2014 Financial Audit Contract.

We noted certain matters that we have reported to management of the Hopkins County School District in a separate letter dated November 12, 2014.

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

Alford, Nance & Jones, LLP
November 12, 2014

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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

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, 2014. 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 State Committee for School District Audits' Fiscal Year 2013-2014 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, 2014.

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

Alford, Nance & Jones, LLP
November 12, 2014

HOPKINS COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Hopkins County School District.

2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.

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 in internal control disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.

5. The auditor's report on compliance for the major federal award programs for the Hopkins County School District expresses an unmodified 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

None Reported

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

None reported

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

None reported

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Kentucky 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, 2014 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 12, 2014, contains our report on significant deficiencies and material weaknesses, if any, in the District's internal controls structure. This letter does not affect our report dated November 12, 2014 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 12, 2014

HOPKINS COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2014

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, GES, BSMS, ADT, HES, JSES)

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:

FORMS

Multiple Receipts	- Some either not used or used incorrectly (signed by teachers). (BSMS, MNHHS, JMMS)
Fundraising	- Some either not used or used incorrectly fundraising worksheet and approval form. (WHS)
Inventory Control	- Some either not used or used incorrectly. (HCCHS, WHS, BSMS, SHMS, JSES, GES, MNHHS)
Ticket Sales	- Was not used or used incorrectly. (MNHHS)

PROCEDURES

Activity fund ending the year in a deficit. (JSES-due to accounts payable)
Store account cards held for unreasonably long time. (BSMS)
More than one instance noted where checks contained only one signature. (MNHHS, BSMS)
Sales tax was paid on purchases. (ADT)

CURRENT YEAR MANAGEMENT LETTER POINTS, continued

Required Forms/Procedures, continued

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.

Receipts

Finding: We noted noncompliance at all schools where teachers/sponsors were not turning in receipts daily to the finance secretary that were collected from the students.

Criteria: The "Redbook" and KDOE guidelines.

Cause and Effect: Lack of enforcement in requiring compliance.

Recommendation: We recommend strict adherence to the policies of the "Redbook". The principals must stress to the teachers/sponsors that the policies must be followed.

Response: The District will continue to provide mandatory Redbook training each year to school bookkeepers and principals. Administration will make staff aware of the requirements to complete multiple receipts forms properly and turn cash received in daily.

Fixed Assets

Finding: We noted instances where the fixed assets "Property Procedure Policy" were not followed. Per the policy, inventory counts should be conducted in October and March. The yearend closing reconciliation process was not performed before the fiscal year was closed.

Criteria: The 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 inventory counts in October and March.

Cause and Effect: A revised fixed assets "Property Procedures Policy" was adopted and must be followed. The yearend close process must be completed before the Director of Finance closes the fiscal year.

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, 2) the fixed asset module must be reconciled to the general ledger (Funds 8 and 81) and depreciation recorded before the fiscal yearend close. There must be communication between the Director of Finance and the fixed asset clerk to ensure that this reconciliation process is completed in a timely manner.

Response: The District will stress the importance of reconciling fixed assets and the general ledger properly and timely

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status)

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.

FYE 6/30/14: 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.

Cause and Effect:

FORMS	
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)

PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status)

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.

FYE 6/30/14: 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 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.

FYE 6/30/14: Significant improvement was made on this issue due to the mandatory Redbook training for the officers of the Booster Clubs and the school principals/administrators enforcing the requirement.

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

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.

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.

FYE 6/30/14: See current year comment "Fixed Assets".