



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Hazard Independent School District

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 Hazard Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hazard Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

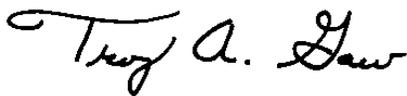
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirement*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Hazard Independent School District, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2013, on our consideration of the Hazard Independent 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 11 and 38 – 42 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 audit standards generally accepted in the United State 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hazard Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are fairly stated in all material respects in relation to the financial statements as a whole.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

February 7, 2013



Management Discussion & Analysis (MD&A)

The discussion and analysis of Hazard Independent School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2012 ("FY 2012"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for FY 2012 are as follows:

- The ending cash balance for the District was \$2,936,202 in 2011 and \$2,713,076 in 2012.
- From 2011 to 2012 total general fund revenue increased by 5.55%.
- Among major funds, the General Fund had \$6,716,499 in revenue, which primarily consists of ad valorem, utility, federal and state funding (the SEEK program). There was \$6,691,142 in expenditures.

Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance and Findings and Recommendations.

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Overview of the Financial Statements

District-wide Financial Statements – Statement of Net Assets and the Statement of Activities

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, “How did we do financially during the previous year?” The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district’s property tax base, current property tax laws in Kentucky, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-type activities.

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

Fund Financial Statements

The analysis of the district’s major funds begins on page 14. Fund financial reports provide detailed information about the district’s major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district’s most significant funds and not the district as a whole. The district’s major governmental funds are the General Fund, Special Revenue Fund, and the Capital Outlay Fund.

Governmental Funds

Nearly all of this district’s activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balance left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The district is the trustee, or fiduciary, for student body funds. All of the district’s fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets and Liabilities* on page 20. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 22 of this report.

Financial analysis of the District as a Whole

As stated earlier the *Statement of Net Assets* and the *Statement of Activities* provide a financial glimpse of the District as a whole. Table 1 (Net Assets Summary) provides a summary of the district's net assets for FY 2012 as contained in the Statement of Net Assets and compares that information to FY 2011. As the table shows, our total net assets as of June 30, 2012 were \$7,053,482, an increase of \$119,359 from the prior year.

Table 1: Summary of Net Assets				
				Percentage
	June 30, 2011	June 30, 2012	Change	Change
Assets				
Current and Other Assets	\$ 3,697,095	\$ 3,943,090	\$ 245,995	6.65%
Capital Assets	3,237,028	3,110,392	(126,636)	-3.91%
<i>Total Assets</i>	<u>\$ 6,934,123</u>	<u>\$ 7,053,482</u>	<u>\$ 119,359</u>	1.72%
Liabilities				
Current Liabilities	\$ 846,491	\$ 877,347	\$ 30,856	3.65%
Long-Term Liabilities	3,149,368	2,899,462	(249,906)	-7.94%
<i>Total Liabilities</i>	<u>\$ 3,995,859</u>	<u>\$ 3,776,809</u>	<u>\$ (219,050)</u>	-5.48%
Net Assets				
Non-spendable	\$ 91,310	\$ 228,948	\$ 137,638	150.74%
Restricted	148,496	1,438,194	1,289,698	868.51%
Unassigned	2,698,458	1,609,531	(1,088,927)	-40.35%
<i>Total Net Assets</i>	<u>\$ 2,938,264</u>	<u>\$ 3,276,673</u>	<u>\$ 338,409</u>	11.52%

In comparing FY 2012 to the prior year we noted the following:

- Total assets increased.
- Long-term liabilities decreased because of bond payments made during year.

Hazard Independent School District
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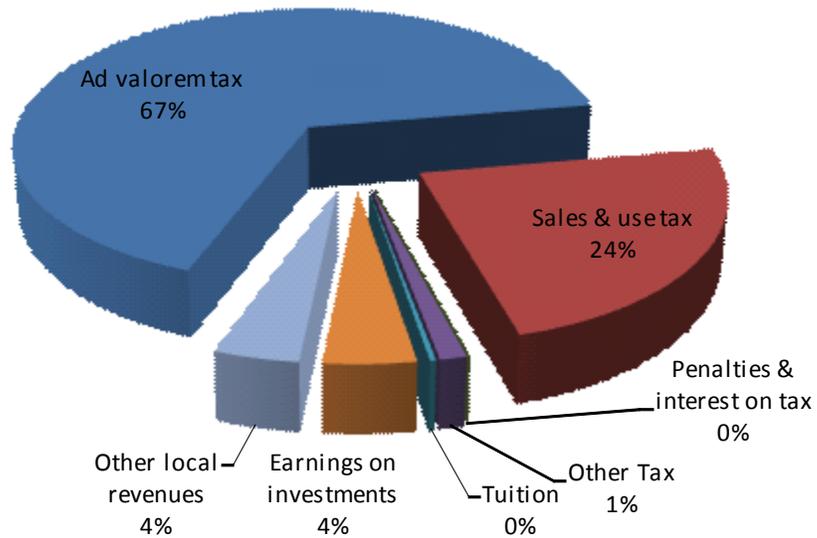
Table 2 (Change in Net Assets) reflects data extracted from the *Statement of Activities* and shows the changes in net assets from FY 2011 to FY 2012.

Table 2: Changes in Net Assets				
				Percentage
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Change</u>
Revenues				
Program Revenues:				
Charges for Services				
Local sources	\$ 192,936	\$ 168,571	\$ (24,365)	-12.63%
Operating Grants and Contributions				
State sources	5,672,630	5,825,172	152,542	2.69%
Federal sources	1,759,323	1,442,979	(316,344)	-17.98%
Capital Grants and Contributions				
State sources	57,768	55,291	(2,477)	-4.29%
Federal sources	29,217	27,476	(1,741)	-5.96%
General Revenues:				
Ad valorem tax	1,035,182	1,336,831	301,649	29.14%
Sales & use tax	506,684	471,447	(35,237)	-6.95%
Penalties & interest on tax	256	364	108	42.19%
Other Tax	20,504	24,642	4,138	20.18%
Tuition	8,550	5,450	(3,100)	-36.26%
Earnings on investments	74,433	85,354	10,921	14.67%
Other local revenues	<u>66,111</u>	<u>79,219</u>	<u>13,108</u>	19.83%
Total local revenue	<u>1,711,720</u>	<u>2,003,307</u>	<u>291,587</u>	17.03%
<i>Total Revenues</i>	9,423,594	9,522,796	99,202	1.05%
Program Expenses:				
Instruction	5,102,705	4,991,545	(111,160)	-2.18%
Support services				
Student	227,470	357,434	129,964	57.13%
Instruction staff	240,854	207,445	(33,409)	-13.87%
District administration	490,036	665,741	175,705	35.86%
School administration	440,933	439,621	(1,312)	-0.30%
Business	257,845	326,953	69,108	26.80%
Plant operation and maintenance	896,345	1,048,816	152,471	17.01%
Student transportation	242,726	233,807	(8,919)	-3.67%
Total support services	2,796,209	3,279,817	483,608	17.30%
Community service activities	91,113	92,830	1,717	1.88%
Facilities acquisition and construction	150,001	157,988	7,987	5.32%
Bond Issuance Cost	1,377	1,377	-	0.00%
Interest Expense	211,199	113,561	(97,638)	-46.23%
Food Service	<u>361,677</u>	<u>547,270</u>	<u>185,593</u>	51.31%
<i>Total Expenses</i>	<u>8,714,281</u>	<u>9,184,388</u>	<u>470,107</u>	5.39%
Change in Net Assets	<u>\$ 709,313</u>	<u>\$ 338,408</u>	<u>\$ (370,905)</u>	-52.29%

Hazard Independent School District
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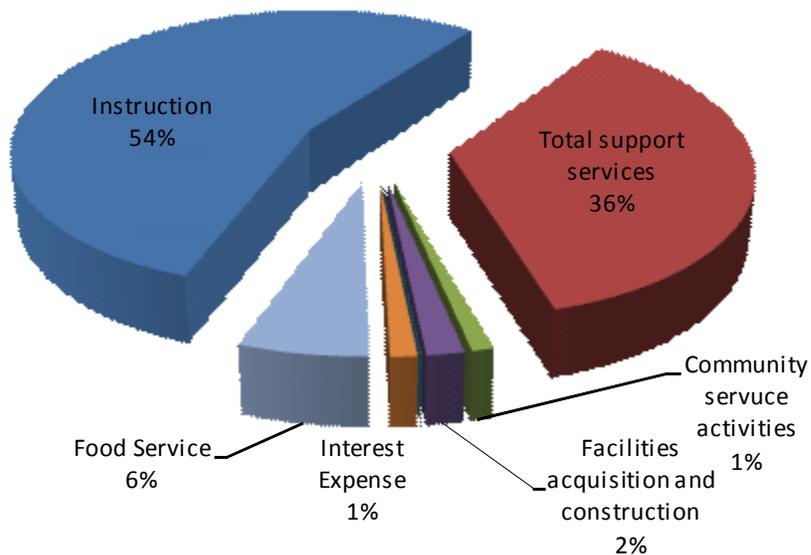
District programs for FY 2012 cost \$9,184,388. To support those programs the district garnered \$7,519,489 in program revenues. The balance of support came from property taxes and other general revenues. The chart below shows FY 2012 revenues by category.

FY 2012 Revenues



Instruction comprises 54% of district expenses. Support service expenses make up 36% of the total, with the balance being interest and fiscal charges. The following chart displays FY 2012 expenses by category.

FY 2012 Expenses



Governmental Activities

The *Statement of Activities* on page 13 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extract information from the *Statement of Activities* and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services increased by \$448,334 primarily due to increase in cost of instruction.

Table 3: Net Cost of Services				
				Percentage
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Change</u>
Instruction	\$ 522,237	\$ 767,912	\$ 245,675	47.04%
Support services				
Student	(109,344)	28,279	137,623	-125.86%
Instruction staff	28,964	35,475	6,511	22.48%
District administration	55,605	102,256	46,651	83.90%
School administration	57,074	75,238	18,164	31.83%
Business	29,325	50,318	20,993	71.59%
Plant operation and maintenance	196,731	246,937	50,206	25.52%
Student transportation	49,511	56,968	7,457	15.06%
Community service activities	10,229	14,184	3,955	38.66%
Facilities acquisition and construction	150,001	157,988	7,987	5.32%
Bond Issuance Cost	1,377	1,377	-	0.00%
Interest Expense	185,876	88,988	(96,888)	-52.13%
<i>Total Net Cost of Services</i>	<u>1,177,586</u>	<u>1,625,920</u>	<u>448,334</u>	38.07%

The program expense categories shown in Table 3 are summarized below.

- “Instruction” expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- “Instruction-related services” and “pupil services” include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- “General administration” costs include expenses associated with the administrative and financial supervision of the district.
- “Plant services” involve keeping the school grounds, buildings, and equipment in good working condition.
- “Facilities acquisition and construction” represents the difference between the amount spent on our facilities and the amount capitalized.
- “Interest and fiscal charges” involve the transactions associated with the payment of interest and other charges related to debt of the district.

Financial Analysis of the District’s Funds

The district’s governmental funds report a combined fund balance of \$3,281,899, which is increased from last year’s total of \$3,052,566. Table 4 (Governmental Fund Balances) provides an analysis of the district’s fund balances and the total change in fund balances from the prior year.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
Fund:				
General	\$ 1,998,732	\$ 1,992,201	\$ (6,531)	-0.33%
Special Revenue	-	-	-	100.00%
Capital Outlay	824,092	928,206	104,114	12.63%
Building Fund	218,451	350,089	131,638	60.26%
Construction Fund	11,291	11,403	112	0.99%
Debt Service Fund	-	-	-	100.00%
<i>Total Fund Balances</i>	<u>\$ 3,052,566</u>	<u>\$ 3,281,899</u>	<u>\$ 229,333</u>	7.51%

General Fund Budgetary Highlights

The district’s budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting.

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. This district adopted a budget for 2011 and 2012 that satisfies the statute requirement.

We do a draft, tentative and working budget. We made minor amendments to the working budget for FY 2012 based upon unexpected changes in the revenues received or expenditures. The working budget is amended only if there is a significant change in revenues or expenditures. Expenditure appropriation adjustments were made to reflect actual staffing, restoration of previously cut programs, increased cost of contracted services, and other changes during the year.

Major differences between final budget amounts and actual revenues and expenditures are identified as follows:

- On behalf adjustment

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the district had \$8,025,005 invested in land, building, equipment (including computer equipment, furniture and vehicles), and construction in progress. Table 5 Capital Assets shows FY 2012 balances as compared to FY 2011.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
Land	\$ 289,565	\$ 289,565	\$ -	0.00%
Land Improvements	422,990	422,990	-	0.00%
Buildings and improvements	5,344,547	5,344,547	-	0.00%
Technology Equipment	947,303	982,334	35,031	3.70%
Vehicles	580,270	580,270	-	0.00%
General equipment	405,299	405,299	-	0.00%
Total	<u>7,989,974</u>	<u>8,025,005</u>	<u>35,031</u>	<u>0.44%</u>
Less: Accumulated Depreciation	4,960,566	5,113,256	152,690	3.08%
<i>Net Capital Assets</i>	<u>\$ 3,029,408</u>	<u>\$ 2,911,749</u>	<u>\$ (117,659)</u>	<u>-3.88%</u>

For more information see Note C to the Basic Financial Statements.

Long-Term Debt

At June 30, 2012 the district had 3,149,368 in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining \$296,992 in long term obligations is the amount of compensated absences liability recorded by the district at year end.

Table 6 (Long-Term Debt) shows the district's outstanding debt as of June 30, 2012 as well as comparable data for the prior year. A more detailed discussion is included in Note D to the Basic Financial Statements.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
General obligation bonds	\$ 3,114,962	\$ 2,852,376	\$ (262,586)	-8.43%
Compensated absences	296,992	296,992	-	0.00%
<i>Net Long-Term Debt</i>	<u>\$ 3,411,954</u>	<u>\$ 3,149,368</u>	<u>\$ (262,586)</u>	<u>-7.70%</u>

Factors bearing on the District's Future

- Attendance percentage.
- Continued decrease of area population.
- Property valuation flux.
- Economic downturn.
- State budget shortfalls.
- Changes in SEEK Allotment allocation

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District's Finance Department at 705 Main Street • Hazard, Kentucky 41701 • Phone: 606.436.3911 • Fax: 606.436.2742.

Hazard Independend School District
Statement of Net Assets - District Wide
As of June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,261,677	\$ 42,458	\$ 3,304,135
Accounts receivable			
Taxes	86,552	-	86,552
Intergovernmental - State	303,598	-	303,598
Intergovernmental - Federal	227,940	-	227,940
Other	576	-	576
Inventory	-	6,171	6,171
Bond Issuance Cost	14,118	-	14,118
Total current assets	<u>3,894,461</u>	<u>48,629</u>	<u>3,943,090</u>
Noncurrent Assets			
Capital assets	8,025,005	386,855	8,411,860
Less: Accumulated depreciation	<u>(5,113,256)</u>	<u>(188,212)</u>	<u>(5,301,468)</u>
Total noncurrent assets	<u>2,911,749</u>	<u>198,643</u>	<u>3,110,392</u>
Total assets	<u><u>\$ 6,806,210</u></u>	<u><u>\$ 247,272</u></u>	<u><u>\$ 7,053,482</u></u>
LIABILITIES			
Current Liabilities			
Amount in excess of deposits	\$ 456,469	\$ -	\$ 456,469
Accounts payable	67,567	(2,645)	64,922
Accrued payroll and withholding obligations	(94)	-	(94)
Accrued interest payable	35,239	-	35,239
Deferrred Revenue	70,905	-	70,905
Current portion of KISTA payable	46,906	-	46,906
Current portion of bonds payable	203,000	-	203,000
Total current liabilities	<u>879,992</u>	<u>(2,645)</u>	<u>877,347</u>
Noncurrent Liabilities			
Sick leave payable	296,992	-	296,992
KISTA Payable	148,470	-	148,470
Bonds payable	2,454,000	-	2,454,000
Total noncurrent liabilities	<u>2,899,462</u>	<u>-</u>	<u>2,899,462</u>
Total liabilities	<u><u>\$ 3,779,454</u></u>	<u><u>\$ (2,645)</u></u>	<u><u>\$ 3,776,809</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 24,134	\$ 204,814	\$ 228,948
Restricted	1,438,194	-	1,438,194
Unrestricted	1,564,428	45,103	1,609,531
Total net assets	<u><u>\$ 3,026,756</u></u>	<u><u>\$ 249,917</u></u>	<u><u>\$ 3,276,673</u></u>

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

Hazard Independent School District
Balance Sheet - Governmental Funds
As of June 30, 2012

	General Fund	Special Revenue	Capital Outlay Fund	Nonmajor	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,971,980	\$ -	\$ 928,206	\$ 361,492	\$ 3,261,678
Accounts receivable					
Taxes	86,552	-	-	-	86,552
Intergovernmental - State	-	300,000	-	-	300,000
Intergovernmental - Federal	-	227,940	-	-	227,940
Other	576	-	-	-	576
Prepaid debt service	-	-	-	-	-
Total assets	<u>\$ 2,059,108</u>	<u>\$ 527,940</u>	<u>\$ 928,206</u>	<u>\$ 361,492</u>	<u>\$ 3,876,746</u>
LIABILITIES					
Amount in excess of deposits	\$ -	\$ 456,469	\$ -	\$ -	\$ 456,469
Accounts payable	67,001	566	-	-	67,567
Payroll taxes payable	(94)	-	-	-	(94)
Deferred revenue	-	70,905	-	-	70,905
Total liabilities	<u>66,907</u>	<u>527,940</u>	<u>-</u>	<u>-</u>	<u>594,847</u>
FUND BALANCE					
Restricted	148,496	-	928,206	361,492	1,438,194
Assigned	64,046	3,372	-	-	67,418
Unassigned	1,779,659	(3,372)	-	-	1,776,287
Total fund balances	<u>1,992,201</u>	<u>-</u>	<u>928,206</u>	<u>361,492</u>	<u>3,281,899</u>
Total liabilities and fund balances	<u>\$ 2,059,108</u>	<u>\$ 527,940</u>	<u>\$ 928,206</u>	<u>\$ 361,492</u>	<u>\$ 3,876,746</u>

Total fund balance \$ 3,281,899

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,911,749
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	14,118
Accounts receivables for SFCC are not current financial resources and therefore are not reported as revenues in governmental funds.	3,598
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(296,992)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but is presented in the statement of net assets.	(35,239)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,852,376)
Rounding	(1)
Net assets of governmental activities	<u>\$ 3,026,756</u>

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

Hazard Independent School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2012

	General Fund	Special Revenue	Capital Outlay Fund	Nonmajor	Total Governmental Funds
Revenues					
From local sources					
Ad valorem tax	\$ 1,116,977	\$ -	\$ -	\$ 219,854	\$ 1,336,831
Sales & use tax	471,447	-	-	-	471,447
Penalties & interest on tax	364	-	-	-	364
Other tax	24,642	-	-	-	24,642
Tuition	5,450	-	-	-	5,450
Earnings on investments	57,327	723	20,174	5,544	83,768
Other local revenues	49,370	-	-	-	49,370
State sources					
SEEK	3,811,848	-	-	-	3,811,848
Other	2,842	479,142	83,940	187,232	753,156
Expenditure Reimbursements	5,642	-	-	-	5,642
Revenue in lieu of tax	29,505	-	-	-	29,505
On behalf payments	1,224,922	-	-	-	1,224,922
SFCC	-	-	-	24,573	24,573
Federal sources					
Ristricted through state	-	1,161,453	-	-	1,161,453
Total revenues	<u>\$ 6,800,336</u>	<u>\$ 1,641,318</u>	<u>\$ 104,114</u>	<u>\$ 437,203</u>	<u>\$ 8,982,971</u>
Expenditures					
Instruction	\$ 3,647,895	\$ 1,337,462	\$ -	\$ -	\$ 4,985,357
Support services					
Student	388,400	-	-	-	388,400
Instruction staff	123,422	79,563	-	-	202,985
District administration	665,109	-	-	-	665,109
School administration	430,099	-	-	-	430,099
Business	326,526	-	-	-	326,526
Plant operation and maintenance	946,496	-	-	-	946,496
Student transportation	208,731	-	-	-	208,731
Community service activities	-	92,830	-	-	92,830
Facilities acquisition and construction	-	157,988	-	-	157,988
Debt Service	73,513	-	-	305,453	378,966
Total expenditures	<u>6,810,191</u>	<u>1,667,843</u>	<u>-</u>	<u>305,453</u>	<u>8,783,487</u>
Excess (deficit) of revenues over expenditures	<u>(9,855)</u>	<u>(26,525)</u>	<u>104,114</u>	<u>131,750</u>	<u>199,484</u>
Other Financing Sources (Uses)					
Operating transfers in	29,849	26,525	-	280,880	337,254
Operating transfers out	(26,525)	-	-	(280,880)	(307,405)
Total other financing sources (uses)	<u>3,324</u>	<u>26,525</u>	<u>-</u>	<u>-</u>	<u>29,849</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(6,531)</u>	<u>-</u>	<u>104,114</u>	<u>131,750</u>	<u>229,333</u>
Fund balance, Beginning	<u>1,998,732</u>	<u>-</u>	<u>824,092</u>	<u>229,742</u>	<u>3,052,566</u>
Fund balance, Ending	<u>\$ 1,992,201</u>	<u>\$ -</u>	<u>\$ 928,206</u>	<u>\$ 361,492</u>	<u>\$ 3,281,899</u>

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

Hazard Independend School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the year ended June 30, 2012

Net change in fund balances--total governmental funds \$ 229,333

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. (117,659)

Bond issuance costs are amortized over the life of the related bonds on the statement of activities (1,377)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets. 262,586

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities. 2,819

Accounts receivable for SFCC are not recognized as revnue of current financial resouces in the governmental fund financial statements, but are increases of assets in the statement of net assets. 100
Rounding (1)

Change in net assets of governmental activities \$ 375,801

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

Hazard Independent School District
Statement of Net Assets - Proprietary Funds
As of June 30, 2012

ASSETS	<u>Food Service Fund</u>
Current Assets	
Cash and cash equivalents	\$ 42,458
Inventory	<u>6,171</u>
Total current assets	<u>48,629</u>
Noncurrent Assets	
Furniture and equipment	386,855
Less: Accumulated depreciation	<u>(188,212)</u>
Total noncurrent assets	<u>198,643</u>
Total assets	<u>\$ 247,272</u>
LIABILITIES	
Current Liabilities	
Accounts payable	<u>\$ (2,645)</u>
Total current liabilities	<u>(2,645)</u>
Noncurrent Liabilities	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>(2,645)</u>
NET ASSETS	
Invested in capital assets, net of related debt	204,813
Unrestricted	<u>45,104</u>
Total net assets	<u>\$ 249,917</u>

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

Hazard Independent School District

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds

For the year ended June 30, 2012

	Food Service Fund
Operating Revenues	
Food service sales	\$ 168,185
Other operating revenues	<u>386</u>
Total operating revenues	<u>168,571</u>
Operating Expenses	
Salaries and wages	255,523
Professional and contract services	10,170
Supplies and materials	238,050
Payments to other funds	29,849
Depreciation	8,978
Other operating expenses	<u>4,700</u>
Total operating expenses	<u>547,270</u>
Operating income (loss)	<u>(378,699)</u>
Nonoperating revenues (expenses)	
Federal grants	276,424
State grants	5,102
On-Behalf payments	30,718
Commodities Received	27,476
Interest income	<u>1,586</u>
Total nonoperating revenues (expenses)	<u>341,306</u>
Operating transfers	
Transfers in (out)	<u>-</u>
Net income (loss)	<u>(37,393)</u>
Total net assets, beginning	<u>287,310</u>
Total net assets, ending	<u>\$ 249,917</u>

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

Hazard Independent School District
Statement of Cash Flows - Proprietary Funds
For the year ended June 30, 2012

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 168,185
Cash received from other activities	386
Cash payments to employees for services	(258,300)
Cash payments to other funds	(29,849)
Cash payments to suppliers for goods and services	(219,613)
Cash payments for other operating activities	(4,700)
Net cash from operating activities	<u>(343,891)</u>
Cash Flows from Capital Financing Activities	
Net cash from capital financing activities	<u>-</u>
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	<u>312,244</u>
Net cash from noncapital financing activities	<u>312,244</u>
Cash Flows from Investing Activities	
Sale of investments	
Interest on investments	<u>1,586</u>
Net cash flows from investing activities	<u>1,586</u>
Net increase (decrease) in cash and cash equivalents	(30,061)
Cash and cash equivalents - beginning	<u>72,519</u>
Cash and cash equivalents - ending	<u>\$ 42,458</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ (378,699)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	8,978
Commodities usage	27,476
Changes in assets and liabilities:	
Receivables	
Inventory	1,131
Accounts payable	(2,777)
Net Cash Provided (Used) by Operating Activities	<u>\$ (343,891)</u>

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

Hazard Independent School District
Statement of Fiduciary Net Assets - Fiduciary Funds
As of June 30, 2012

	<u>Trust/Agency Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ <u>88,541</u>
Total current assets	<u>88,541</u>
Noncurrent Assets	
Total noncurrent assets	<u>-</u>
Total assets	<u>\$ 88,541</u>
LIABILITIES	
Current Liabilities	
Due to student groups	\$ <u>88,541</u>
Total current liabilities	<u>88,541</u>
Noncurrent Liabilities	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>88,541</u>
NET ASSETS	
Net Assets	
Total net assets	<u>\$ -</u>

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

Hazard Independent School District

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

For the year ended June 30, 2012

	<u>Trust/Agency Fund</u>
Additions	
Other additions	\$ 570,015
Total additions	<u>570,015</u>
Deductions	
Other deductions	<u>561,500</u>
Total deductions	<u>561,500</u>
Change in net assets	8,515
Net assets - beginning	<u>80,026</u>
Net assets - ending	<u>\$ 88,541</u>

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

Note A – Summary of Significant Accounting Policies

The accounting and reporting framework and the more significant accounting principles and practices of Hazard Independent School District (District) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2012.

Accounting Principles

The District accounts for its financial transactions in accordance with the policies, procedures, applicable laws and regulations of the State of Kentucky. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U.S. Governmental Accounting Standards Board ("GASB"); and it complies with the requirements of the appropriate version of contracts and grants of agencies from which it receives funds.

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials whom, together constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise over-sight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2012, the District is not a component unit of any other reporting entity.

Hazard Independent Board of Education Finance Corporation

The Board of Education resolved to authorize the establishment of the Hazard Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund activities.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Agency funds have no measurement focus.

Basis of Accounting

Basis of account refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting.

Notes to the Basic Financial Statements

June 30, 2012

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected with the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirement, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with nonexchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortizations, are not recognized in the governmental funds. 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.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses as appropriate. The District’s resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District’s accounts are organized into major, non-major, and fiduciary funds as follows:

Hazard Independent School District
Notes to the Basic Financial Statements
June 30, 2012

Major Governmental Funds:

The General Fund – The general fund is the District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Capital Outlay Fund – 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.

Non-major Governmental Funds:

Building Fund – The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission’s construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district’s facility plan.

Construction (Capital Projects) Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

Agency Funds – The District accounts for activities of student groups and others in a custodial capacity in agency funds. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Proprietary Funds:

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 Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Permanent Funds:

Trust Funds – Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs. These funds do not apply to the Hazard Independent School District.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

Estimates

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

Assets, Liabilities, and Equity

Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

The District is authorized to deposit cash and invest excess fund pursuant to the regulations set forth by Kentucky Revised Statute. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid Expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are those purchased or acquired with an original cost of \$1,000 or more and are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciation assets are as follows:

<u>Description</u>	<u>Estimated Useful Lives in Years</u>
Buildings and improvements	25 – 50
Land improvements	20
Technology equipment	5
Vehicles	5 – 10
Audio-visual equipment	15
Food service equipment	10 – 12
Furniture and fixtures	7
Rolling stock	15
Other	10

Deferred Revenue

Cash received for federal and state special project and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Compensated Absences

Employees are allowed to accrue ten days of sick leave each year without limit. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (180 days for teachers and 240 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

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

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

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

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amounts of the debt issued, premiums, or discounts are reported as other financing sources/uses.

Fund Balance Reserves and Designations

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds when an expenditure is incurred for which those fund balances are available.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposed for which both restricted and unrestricted net assets are available.

Revenue Limit/Property Tax

The District’s revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

Hazard Independent School District
Notes to the Basic Financial Statements
June 30, 2012

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2012 fiscal year was based upon, was in excess of \$188.5 million.

Taxes are due on November 1 and become delinquent by February 1 following the October 1 levy date.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.539 per \$100 valuation for real property, \$.540 per \$100 valuation for business personal property, and \$.509 per \$100 valuation for motor vehicles.

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

Risk Management

The district is exposed to various risk 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, errors and omissions, and general liability coverage, the District purchases insurance coverage, from a private insurance agent, through a cooperative on a competitive bidding basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

There were no significant reductions in insurance coverage in the current fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivable and payable, as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

On-Behalf Payments for Fringe Benefits

The District receives on-behalf payments from the State of Kentucky to be used for Kentucky Teacher Retirement contributions, vocational education, health insurance, administrative fees, flexible spending and federal reimbursement. On-behalf payments to the District totaled \$1,255,640 for the fiscal year ended June 30, 2012. Such payments are recorded as intergovernmental revenue and employee benefit expenses/expenditures in the GAAP basis government-wide and general fund and proprietary financial

Hazard Independent School District
Notes to the Basic Financial Statements
 June 30, 2012

statements, but are not budgeted and therefore are not included in the general fund budgetary basis financial statements.

Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments

Note B – Cash and Investments

The District maintains their cash and investments with various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal depository insurance and pledged securities covers all account balances as shown below.

Cash and cash equivalents consist of demand deposit accounts that are interest bearing at a rate determined by the bid of the depository.

Investments are time deposits with various maturity dates that consist of certificates of deposits with the various local banks. Federal depository insurance and pledged securities cover these deposits as shown below.

	<u>1st Trust Bank</u>
Cash Balances - interest bearing	\$ 3,865,392.76
Cash Balances - non interest bearing	-
Less: FDIC Coverage	<u>(250,000.00)</u>
Unsecured Cash Balances	\$ 3,615,392.76
Less: Pledged Security Coverage (C-8)	<u>3,768,586.25</u>
(Over) Under Secured Balance	<u>\$ (153,193.49)</u>

Custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District’s policy requires deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The District board approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee or the District treasurer, or both.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The district does not retain any long-term investments.

Hazard Independent School District
Notes to the Basic Financial Statements
 June 30, 2012

Concentration of Credit Risk. The Board places no limit on the amount the District may invest in any one issuer. All of the organization's cash is held at a local financial institution.

For discussion of adopted deposit and investment policy and other related information, see Note A.

Note C – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance			Balance
<u>Governmental Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Land	\$ 289,565	\$ -	\$ -	\$ 289,565
Land Improvements	422,990	-	-	422,990
Buildings and improvements	5,344,547	-	-	5,344,547
Technology Equipment	947,303	35,031	-	982,334
Vehicles	580,270	-	-	580,270
General equipment	405,299	-	-	405,299
Construction in progress	-	-	-	-
Totals at historical cost	<u>7,623,105</u>	<u>35,031</u>	<u>-</u>	<u>8,025,005</u>
Less: accumulated depreciation				
Land Improvements	289,486	12,723	-	302,209
Buildings and improvements	3,272,441	87,085	-	3,359,526
Technology Equipment	682,076	21,199	-	703,275
Vehicles	480,174	25,076	-	505,250
General equipment	<u>236,389</u>	<u>6,607</u>	<u>-</u>	<u>242,996</u>
Total accumulated depreciation	<u>4,960,566</u>	<u>152,690</u>	<u>-</u>	<u>5,113,256</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 2,817,030</u>	<u>\$ (117,659)</u>	<u>\$ -</u>	<u>\$ 2,911,749</u>
Business-Type Activities				
Food service and equipment	\$ 386,855	\$ -	\$ -	\$ 386,855
Totals at historical cost	<u>386,855</u>	<u>-</u>	<u>-</u>	<u>386,855</u>
Less: accumulated depreciation				
Food service and equipment	<u>179,234</u>	<u>8,978</u>	<u>-</u>	<u>188,212</u>
Total accumulated depreciation	<u>179,234</u>	<u>8,978</u>	<u>-</u>	<u>188,212</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 207,620</u>	<u>\$ (8,978)</u>	<u>\$ -</u>	<u>\$ 198,643</u>

Depreciation expense was charged to governmental activities as follows:

Hazard Independent School District
Notes to the Basic Financial Statements
 June 30, 2012

Governmental Activities Depreciation Expense by Function

	<u>June 30, 2012</u>
Instruction	\$ 6,188
Support services	
Student	4,065
Instruction staff	4,460
District administration	632
School administration	9,522
Business	427
Plant operation and maintenance	102,320
Student transportation	<u>25,076</u>
Total	\$ <u>152,690</u>

Note D – Capital Lease Payable

The following is an analysis of the leased property under capital lease:

Description	Maturity	Interest Rates	Original	Principal	Debt	Debt	Principal	Due in
			Issue	Balance July 1, 2011	Issued	Paid	Balance June 30, 2012	One Year
KISTA:								
Issue of 2003	Mar-13	2.00 to 3.90%	\$ 39,338	\$ 7,293	\$ -	\$ 3,574	\$ 3,719	\$ 3,719
Issue of 2004	Mar-14	1.00 to 3.50%	119,815	34,805	-	12,767	22,038	10,842
Issue of 2005	Mar-15	3.00 to 3.625%	133,426	53,455	-	13,925	39,530	14,416
Issue of 2008	Mar-18	3.00 to 3.75%	93,011	64,868	-	8,825	56,043	9,110
Issue of 2009	Mar-20	2.00 to 3.60%	94,240	84,441	-	10,395	74,046	8,819
Total			\$ 479,830	\$ 244,862	\$ -	\$ 49,486	\$ 195,376	\$ 46,906

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

Fiscal Year Ending June 30,	District		
	Interest	Principal	Total
2013	\$ 6,420	\$ 46,906	\$ 53,326
2014	4,925	41,970	46,895
2015	3,578	31,732	35,310
2016	2,535	19,544	22,079
2017	1,897	18,417	20,314
2018 - 2022	<u>2,229</u>	<u>36,807</u>	<u>39,036</u>
Total	\$ <u>21,584</u>	\$ <u>195,376</u>	\$ <u>216,960</u>

Total minimum lease payments	\$ 216,960
Less: Amount representing interest	<u>(21,584)</u>
Present Value of Net Minimum Lease Payments	\$ <u>195,376</u>

Note E – Long-Term Obligations

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Hazard Independent School District Finance Corporation aggregating \$2,657,000 and \$203,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued to construct and repair school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The long-term obligation activity including the original amount of each issue, the issue date, and interest rates and summary of changes are summarized below:

Description	Maturity	Interest Rates	Original	Principal	Debt	Debt	Principal	Due in
			Issue	Balance July 1, 2011	Issued	Paid	Balance June 30, 2012	One Year
BONDS:								
1999 Bond	Jun-19	3.85 to 4.95%	\$ 321,000	\$ 164,000	\$ -	\$ 17,000	\$ 147,000	\$ 18,000
2005 Bond	Sep-22	3.75 to 4.15%	3,815,000	2,690,000	-	180,000	2,510,000	185,000
2007 KISTA Tech	Nov-11	0%	161,000	16,100	-	16,100	-	-
Total			<u>\$ 4,297,000</u>	<u>\$ 2,870,100</u>	<u>\$ -</u>	<u>\$ 213,100</u>	<u>\$ 2,657,000</u>	<u>\$ 203,000</u>

Payments on the General Obligation Bonds are made from the Debt Service Fund using local revenues and SFCC Contributions. Compensated absences are paid by the general fund.

In connection with the school revenue bonds issued after May 1, 1989 the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, to total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligation of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

Fiscal Year	SFCC		District		Total
	Interest	Principal	Interest	Principal	
Ending June 30,					
2013	\$ 6,750	\$ 18,000	\$ 94,036	\$ 185,000	\$ 303,786
2014	5,871	19,000	86,911	195,000	306,782
2015	4,935	20,000	79,411	205,000	309,346
2016	3,935	21,000	71,578	210,000	306,513
2017	2,871	22,000	63,408	220,000	308,279
2018 - 2022	2,351	47,000	180,279	1,220,000	1,449,630
2023 - 2027	-	-	5,500	275,000	280,500
	<u>\$ 26,713</u>	<u>\$ 147,000</u>	<u>\$ 581,123</u>	<u>\$ 2,510,000</u>	<u>\$ 3,264,836</u>

Note F – Commitments under Noncapitalized Leases

As of June 30, 2012 the District had not entered into any material operating lease agreements.

Note G – Retirement Plans

Kentucky Teachers Retirement System:

Plan Description – The Hazard Independent School System 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 Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the *Kentucky Revised Statutes* (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. For members who have established an account in the retirement system administered by the Commonwealth prior to July 1, 2008, are required to contribute 9.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 13.105% of salaries. For members hired after July 1, 2008, they are required to contribute 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Hazard Independent School System's total payroll for the year was \$5,303,661. The payroll for employees covered under KTRS was \$4,454,370. For the year ended June 30, 2012, the Commonwealth contributed \$499,542 million in matching to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 were \$93,309, which represents those employees covered by federal programs.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits 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 – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member

Hazard Independent School District
Notes to the Basic Financial Statements
 June 30, 2012

contributions and one-half (1/2) from state appropriations. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

County Employees Retirement System

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or on the web at hkyret.ky.gov.

Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 16.17% of the employee's total compensation subject to contributions. Total payroll for employees covered under CERS was \$849,291.

The contribution requirement for CERS for the year ended June 30, 2012 was \$194,866 million which consisted of \$153,375 from the District and \$41,491million from the employees.

The following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended June 30,	KTRS		CERS
	District	State	
2012	\$ 93,309	\$ 499,542	\$ 153,375
2011	\$ 82,400	\$ 510,453	\$ 135,888
2010	\$ 94,020	\$ 498,492	\$ 131,645

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefits obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicates:

	KTRS	CERS
	as of June 30, 2011	as of June 30, 2011
	(in 1,000's of dollars)	
Actuarial accrued liabilities	\$ 25,968,692	\$ 8,918,085,025
Actuarial value of assets	14,908,138	5,629,611,183
Unfunded (overfunded) actuarial accrued liabilities	\$ 11,060,554	\$ 3,288,473,842

Hazard Independent School District
Notes to the Basic Financial Statements
 June 30, 2012

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

Note H – Deficit Operating / Fund Balances

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

Fund	Reduction in Fund Balance
General Fund	\$ 6,531
Food Service Fund	37,393

Note I – Transfer of Funds

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

For	From Fund	Amount	To Fund	Amount
Matching	General Fund	\$ 26,525	Special Revenue Fund	\$ 26,525
Debt Service Payments	Non-Major Fund	280,880	Non-Major Fund	280,880
Indirect Cost	Food Service Fund	29,849	General Fund	29,849

Note J – Commitments and Contingencies

Grant Programs

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 the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the

Hazard Independent School District
Notes to the Basic Financial Statements
June 30, 2012

Districts grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Litigation

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

Future Construction

July, 2012 bids were accepted for the renovations at Walkertown Middle School and Roy G. Eversole Elementary School. The total estimated amounts are \$1,698,007 and \$3,102,108 respectively. Bonds in the amount of \$4,300,000 were sold July 26, 2012 to fund the projects.

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).

Note K – On-Behalf Payments

The State of Kentucky makes certain health insurance, life insurance, flexible spending, administrative fees and pension plan payments on behalf of the District for its employees. The District records these payments as both a revenue and expenditure in the General Fund and Food Service Fund based upon percentage of payroll. The total of the on-behalf payments for the fiscal year ended June 30, 2012 was \$1,224,922 for the General Fund and \$30,718 for the Food Service Fund. The District is not legally responsible for these contributions.

Note L – Annual Financial Report Differences

All adjustments were made to the District's accounting system and all difference between the audited financial statement and the District's Annual Financial Report is due to rounding.

Note M – Subsequent Events

The District has evaluated subsequent events through February 7, 2013, the date which the financial statements were available to be issued. During that review the following was discovered and determined should be disclosed.

Kentucky School Board Insurance Trust was founded in the late 1970's to provide liability insurance and workers compensation insurance to local governments. Since its inception it has not been self-sufficient. As a result it can no longer pay its liabilities. To ensure its viability it has decided to rebill all its current and former clients to recoup losses attributed to each by recalculating premiums and claims. As of the date of this report the amount that will be associated with the District has yet to be determined. This amount could have an impact the financial statements.

Required Supplemental Information

Hazard Independent School District
Budgetary Comparison Schedules

Required Supplementary Information
 For the year ended June 30, 2012

	General Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual	Adjustments	Actual	
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	
Revenues						
From local sources						
Ad valorem tax	\$ 993,500	\$ 894,500	\$ 1,116,977	\$ -	\$ 1,116,977	\$ 222,477
Sales & use tax	480,000	474,000	471,447	-	471,447	(2,553)
Penalties & interest on tax	200	150	364	-	364	214
Other tax	12,500	15,000	24,642	-	24,642	9,642
Tuition	6,000	6,000	5,450	-	5,450	(550)
Earnings on investments	55,000	50,000	57,327	-	57,327	7,327
Other local revenues	23,500	39,000	49,370	-	49,370	10,370
State sources						
SEEK	3,787,205	3,811,848	3,811,848	-	3,811,848	-
Other	-	-	2,842	-	2,842	2,842
Expenditure Reimbursements	8,000	8,000	5,642	-	5,642	(2,358)
Revenue in lieu of tax	28,800	28,800	29,505	-	29,505	705
On behalf payments	-	-	1,224,922	(1,224,922)	-	-
Total revenues	<u>\$ 5,394,705</u>	<u>\$ 5,327,298</u>	<u>\$ 6,800,336</u>	<u>\$ (1,224,922)</u>	<u>\$ 5,575,414</u>	<u>\$ 248,116</u>
Expenditures						
Instruction	2,984,360	2,978,659	3,647,895	(837,032)	2,810,863	167,796
Support services						
Student	306,660	305,835	388,400	(83,110)	305,290	545
Instruction staff	121,974	132,694	123,422	(27,342)	96,080	36,614
District administration	861,311	886,259	665,109	(35,651)	629,458	256,801
School administration	340,205	350,911	430,099	(87,336)	342,763	8,148
Business	197,966	211,360	326,526	(57,137)	269,389	(58,029)
Plant operation and maintenance	919,341	992,773	946,496	(69,088)	877,408	115,365
Student transportation	238,313	257,891	208,731	(28,226)	180,505	77,386
Debt Service	53,326	73,514	73,513	-	73,513	1
Total expenditures	<u>6,023,456</u>	<u>6,189,896</u>	<u>6,810,191</u>	<u>(1,224,922)</u>	<u>5,585,269</u>	<u>604,627</u>
Excess (deficit) of revenues over expenditures	<u>(628,751)</u>	<u>(862,598)</u>	<u>(9,855)</u>	<u>-</u>	<u>(9,855)</u>	<u>852,743</u>
Other Financing Sources (Uses)						
Operating transfers in	23,500	32,750	29,849	-	29,849	(2,901)
Operating transfers out	(19,749)	(19,750)	(26,525)	-	(26,525)	(6,775)
Total other financing sources (uses)	<u>3,751</u>	<u>13,000</u>	<u>3,324</u>	<u>-</u>	<u>3,324</u>	<u>(9,676)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(625,000)</u>	<u>(849,598)</u>	<u>(6,531)</u>	<u>-</u>	<u>(6,531)</u>	<u>843,067</u>
Fund balance, beginning	<u>1,600,000</u>	<u>1,834,598</u>	<u>1,998,732</u>	<u>-</u>	<u>1,998,732</u>	<u>164,134</u>
Fund balance, ending	<u>\$ 975,000</u>	<u>\$ 985,000</u>	<u>\$ 1,992,201</u>	<u>\$ -</u>	<u>\$ 1,992,201</u>	<u>\$ 1,007,201</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Hazard Independent School District
Budgetary Comparison Schedules
 Required Supplementary Information
 For the year ended June 30, 2012

	Special Revenue Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
	Original	Final				
Revenues						
From local sources						
Earnings on investments	\$ -	\$ 723	\$ 723	\$ -	\$ 723	\$ -
State sources						
Other	311,000	525,506	479,142	-	479,142	(46,364)
Federal sources						
Restricted through state	863,180	1,422,709	1,161,453	-	1,161,453	(261,256)
Total revenues	<u>\$ 1,174,180</u>	<u>\$ 1,948,938</u>	<u>\$ 1,641,318</u>	<u>\$ -</u>	<u>\$ 1,641,318</u>	<u>\$ (307,620)</u>
Expenditures						
Instruction	993,277	1,555,780	1,337,462	-	1,337,462	218,318
Support services						
Student	550	850	-	-	-	850
Instruction staff	85,803	163,551	79,563	-	79,563	83,988
Community service activities	94,550	105,282	92,830	-	92,830	12,452
Facilities acquisition and const.	-	157,988	157,988	-	157,988	-
Total expenditures	<u>1,174,180</u>	<u>1,983,451</u>	<u>1,667,843</u>	<u>-</u>	<u>1,667,843</u>	<u>315,608</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(34,513)</u>	<u>(26,525)</u>	<u>-</u>	<u>(26,525)</u>	<u>7,988</u>
Other Financing Sources (Uses)						
Operating transfers in		26,525	26,525	-	26,525	-
Total other financing sources (uses)	<u>-</u>	<u>26,525</u>	<u>26,525</u>	<u>-</u>	<u>26,525</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>(7,988)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,988</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ (7,988)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,988</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Hazard Independent School District
Budgetary Comparison Schedules
 Required Supplementary Information
 For the year ended June 30, 2012

	Capital Outlay Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
	Original	Final				
Revenues						
From local sources						
Earnings on investments	\$ 15,000	\$ 15,000	\$ 20,174	\$ -	\$ 20,174	\$ 5,174
State sources						
Other	84,000	83,940	83,940	-	83,940	-
Total revenues	<u>\$ 99,000</u>	<u>\$ 98,940</u>	<u>\$ 104,114</u>	<u>\$ -</u>	<u>\$ 104,114</u>	<u>\$ 5,174</u>
Expenditures						
Facilities acquisition and const.	99,000	98,940	-	-	-	98,940
Total expenditures	<u>99,000</u>	<u>98,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,940</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>104,114</u>	<u>-</u>	<u>104,114</u>	<u>104,114</u>
Other Financing Sources (Uses)						
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>104,114</u>	<u>-</u>	<u>104,114</u>	<u>104,114</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>824,092</u>	<u>-</u>	<u>824,092</u>	<u>824,092</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,206</u>	<u>\$ -</u>	<u>\$ 928,206</u>	<u>\$ 928,206</u>

Note A – Budgets and Budgetary Accounting

Budget Policy and Practice

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The budget is presented to the District board for review. In June, the District council adopts the annual fiscal year budgets for District operating funds. Once approved, the District council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Special Revenue funds are budgeted on a project-length basis and are also subjected to the council review and approval process. By state law, the District's board must adopt a final budget no later than July 1. The District's board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and Special Revenue Fund are presented as Required Supplementary Information.

Basis of Budgeting

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Instruction, Support Services, Community Service Activities, Facilities Acquisition and Construction and Debt Service. Budget revisions at this level are managed administratively and reported to the District board. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on a basis consistent with generally accepted accounting principles for all government funds, except for the Debt Service Fund. A legally adopted budget is not required for this fund. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Note B – Excess of Expenditures over Appropriations

The District did not budget appropriations, in the General Fund, for on-behalf payments provided by the Kentucky Department of Education because they were not measurable at the time of budgeting. Therefore, these expenditures were adjusted out of the actual basis to mirror actual budget basis for review.

As of June 30, 2012, expenditures exceeded appropriation in individual funds as follows:

General Fund:	
Support services	
Business	\$ 58,029
Special Revenue:	
Capital Outlay:	

The excess expenditures were covered by greater than anticipated revenues or available fund balance in the funds.

Other Supplemental Information

Hazard Independend School District

Combining Balance Sheet - Nonmajor Governmental Funds

For the year ended June 30, 2012

	Building	Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 350,089	\$ 11,403	\$ -	\$ 361,492
Total assets	<u>\$ 350,089</u>	<u>\$ 11,403</u>	<u>\$ -</u>	<u>\$ 361,492</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Total liabilities	-	-	-	-
Fund Balances				
Restricted	350,089	11,403	-	361,492
Total fund balances	<u>350,089</u>	<u>11,403</u>	<u>-</u>	<u>361,492</u>
Total liabilities and fund balances	<u>\$ 350,089</u>	<u>\$ 11,403</u>	<u>\$ -</u>	<u>\$ 361,492</u>

Hazard Independent School District

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the year ended June 30, 2012

	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Funds
Revenues				
From local sources				
Ad valorem tax	\$ 219,854	\$ -	\$ -	\$ 219,854
Earnings on investments	5,432	112	-	5,544
State sources				
Other	187,232	-	-	187,232
SFCC	-	-	24,573	24,573
Total revenues	<u>\$ 412,518</u>	<u>\$ 112</u>	<u>\$ 24,573</u>	<u>\$ 437,203</u>
Expenditures				
Debt Service	-	-	305,453	305,453
Total expenditures	<u>-</u>	<u>-</u>	<u>305,453</u>	<u>305,453</u>
Excess (deficit) of revenues over expenditures	<u>412,518</u>	<u>112</u>	<u>(280,880)</u>	<u>131,750</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	280,880	280,880
Operating transfers out	(280,880)	-	-	(280,880)
Total other financing sources (uses)	<u>(280,880)</u>	<u>-</u>	<u>280,880</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>131,638</u>	<u>112</u>	<u>-</u>	<u>131,750</u>
Fund balance, beginning	<u>218,451</u>	<u>11,291</u>	<u>-</u>	<u>229,742</u>
Fund balance, ending	<u>\$ 350,089</u>	<u>\$ 11,403</u>	<u>\$ -</u>	<u>\$ 361,492</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Hazard Independent School Activity Funds

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Roy G. Eversole Middle School	\$ 26,687	\$ 65,423	\$ 51,595	\$ -	\$ -	\$ 40,515
Walkertown - Lothair Primary S	28,413	28,894	30,342	-	-	26,965
Hazard High School	<u>24,926</u>	<u>475,698</u>	<u>479,563</u>	<u>26,353</u>	<u>26,353</u>	<u>21,061</u>
Total	<u>\$ 80,026</u>	<u>\$ 570,015</u>	<u>\$ 561,500</u>	<u>\$ 26,353</u>	<u>\$ 26,353</u>	<u>\$ 88,541</u>

Hazard Independend School District

Statement of Revenues, Expenditures and Changes in Fund Balance -Hazard High School

For the year ended June 30, 2012

	Fund					Fund
	Balance	Receipts	Expenditures	Transfer In	Transfer Out	Balance
	Beginning					Ending
14th Region Tournament	\$ 23	\$ -	\$ -	\$ -	\$ 23	\$ -
14th Region Volleyball	-	3,775	2,042	-	1,733	-
54th Dist Volleyball	-	2,129	1,397	-	732	-
54th District	199	-	198	-	-	1
A. Asher Mem Scholarship	-	1,000	1,000	-	-	-
A. Noble Mem Scholarship	475	25	50	-	450	-
A/P Biology	-	717	124	-	515	78
Academics	303	2,200	2,488	-	15	-
Alumni Scholarship	1,484	-	600	-	-	884
AP Exams	2	778	850	70	-	-
Art	10	-	-	-	-	10
B. Combs Mem Scholarship	-	1,500	-	-	300	1,200
BADD	-	30	-	-	-	30
Baseball	3,426	29,289	26,652	-	5,182	881
Biology	-	275	481	206	-	-
Boys Basketball	931	61,435	61,436	-	381	549
Cedar Coal Grant	50	-	-	-	50	-
Chandaranda, Das, BA	-	500	500	-	-	-
Cheerleading	191	2,083	1,672	-	120	482
Chemistry	-	280	44	-	230	6
Chorus	-	2,482	2,680	198	-	-
Coffee & Flowers	-	290	395	105	-	-
Dances	1	-	-	-	1	-
Darrell Bentlye Mat	-	500	500	-	-	-
Dustin Buckner School	-	500	-	-	500	-
Emma B. Ross Scholarship	200	100	300	-	-	-
Football	78	57,279	57,665	308	-	-
Freshman Homecoming	-	754	754	-	-	-
Freshman Trip	-	11,116	12,021	905	-	-
General	890	38,398	31,477	-	7,715	96
Girls Basketball	-	19,514	20,244	730	-	-
Golf	479	2,275	1,842	59	-	971
Hall Scholarship	-	-	300	300	-	-
History Club	-	108	108	-	-	-
Home Economics	42	190	233	1	-	-
Homecoming	-	2,872	2,790	-	82	-
Jan R. Gorman Scholarship	-	250	250	-	-	-
Jostens	463	845	1,308	-	-	-
Junior Class Trip	2,642	27,473	29,061	-	1,053	1
Lea Ann Toler Memorial	100	-	100	-	-	-
Library Account	192	2,531	2,708	-	15	-
Middle School Baseball	765	19,378	23,013	2,870	-	-
Middle School Boys Basketball	237	7,114	15,917	8,566	-	-

Hazard Independend School District

Statement of Revenues, Expenditures and Changes in Fund Balance -Hazard High School

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Middle School Football	-	1,500	1,021	-	479	-
Middle School Girls Basketball	-	884	463	-	15	406
National Honor Society	341	593	546	-	150	238
Peoples Bank & Trust	-	500	500	-	-	-
Prom / After Prom	1,193	7,915	6,910	-	1,193	1,005
School Pictures	-	557	363	-	194	-
Senior Class Trip	-	40,180	40,358	185	-	7
Senior Reception	-	90	-	-	90	-
Soccer Boys & Girls	1,568	13,835	12,840	278	-	2,841
Softball	402	17,251	17,292	-	361	-
Sophomore Class Trip	-	28,858	26,008	-	2,850	-
Speech	456	5,305	7,367	1,640	-	34
SR Homecoming	-	643	643	-	-	-
St Championship Ring	-	16,770	16,433	-	-	337
State Football All "A"	-	11,443	11,428	-	15	-
Technical Education	821	950	2,806	1,270	-	235
Tennis	484	350	645	35	-	224
Texas Speech & Drama	-	500	500	-	-	-
Textbook	-	1,275	5,141	3,866	-	-
Track	157	-	-	-	15	142
Volleyball	118	13,825	16,634	2,712	-	21
Year Book 2010/2011	5,959	75	4,140	-	1,894	-
Year Book 2011/2012	-	9,995	1,007	1,123	-	10,111
Youth Service Center	244	2,419	3,318	926	-	271
Total	<u>\$ 24,926</u>	<u>\$ 475,698</u>	<u>\$ 479,563</u>	<u>\$ 26,353</u>	<u>\$ 26,353</u>	<u>\$ 21,061</u>

Hazard Independent School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
<u>U.S. Department of Agriculture:</u>					
<i>Passed through State Department of Education:</i>					
School Breakfast Program	10.553	7760005-11	\$ 13,303		
School Breakfast Program	10.553	7760005-12	55,963		
National School Lunch Program	10.555	7750002-11	43,000		
National School Lunch Program	10.555	7750002-12	162,952		
Summer Food Service Program for Children	10.559	7690024-11	785		
Summer Food Service Program for Children	10.559	7740023-11	7,603		
Total Child Nutrition Cluster				283,606	
Commodity Supplemental Food Program	10.565	Fund51	27,476		
Total Commodity Supplemental Food Program				<u>\$ 27,476</u>	
Total U.S. Department of Agriculture					\$ 311,082
<u>U.S. Department of Labor</u>					
<i>Passed Through State Department of Education:</i>					
WIA Youth Activities	17.259	3822	<u>25,400</u>		
Total WIA Youth Activities				<u>25,400</u>	
Total U.S. Department of Labor					25,400
<u>U.S. Department of Education</u>					
<i>Passed Through State Department of Education:</i>					
Title I Grant to Local Educational Agencies	84.010	3100002-10	89,069		
Title I Grant to Local Educational Agencies	84.010	3100002-11	418,697		
Title I Grant to Local Educational Agencies	84.010	3101M	1,177		
Title I Grants to Local Educational Agencies - ARRA	84.389	4100002-10	<u>45,102</u>		
Total Title I, Part A Cluster				554,046	
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-10	68,664		
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-11	109,617		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-09	14,692		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-10	25,927		
Special Education - Preschool Grants (IDEA Preschool) ARRA	84.392	4800002-09	<u>7,670</u>		
Total Special Education Cluster				226,571	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Hazard Independent School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
Career and Technical Education - Basic Grants to States	84.048	4621232-10	3,072		
Career and Technical Education - Basic Grants to States	84.048	4621232-11	4,792		
Career and Technical Education - Basic Grants to States	84.048	3481A	<u>295</u>		
Total Career and Technical Education - Basic Grants to States				8,159	
Educational Technology State Grants	84.318	3210002-09	15,562		
Educational Technology State Grants - ARRA	84.386	4210002-09	<u>14,495</u>		
Total Educational Technology State Grants				30,057	
Rural Education	84.358	3140002-10	4,138		
Rural Education	84.358	3140002-11	<u>9,741</u>		
Total Rural Education				13,878	
Improving Teacher Quality State Grants	84.367	3230002-10	13,905		
Improving Teacher Quality State Grants	84.367	3230002-11	<u>65,836</u>		
Total Improving Teacher Quality State Grants				79,741	
Education Jobs Fund	84.410	EJOB00	<u>222,262</u>		
Total Education Jobs Fund				<u>222,262</u>	
Total U.S. Department of Education					1,134,714
 Environmental Protection Agency					
<i>Passed Through State Department of Education:</i>					
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	4,338		
Total Appalachian Research, Technical Assistance, and Demonstration Projects				<u>4,338</u>	
Total Environmental Protection Agency					<u>4,338</u>
 Total Expenditures of Federal Awards					 <u><u>\$ 1,475,534</u></u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Hazard Independent School District

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Note A –Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hazard Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B – Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the District had received food commodities totaling \$27,476 in inventory. Since the district no longer tracks commodities individually, all commodities received are considered expended.



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**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***

To the Board of Education
Hazard Independent School District

We have audited the financial statements of the Hazard Independent School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 7, 2013. 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirement*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of Hazard Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hazard Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hazard Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hazard Independent School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weakness, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hazard Independent 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 *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Hazard Independent School District in a separate letter dated February 7, 2013.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

February 7, 2013



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Compliance with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control Over Compliance in Accordance with
OMB Circular A-133**

Independent Auditor's Report

To the Board of Education
Hazard Independent School District

Compliance

We have audited the Hazard Independent 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 the Hazard Independent School District's major federal programs for the year ended June 30, 2012. Hazard Independent 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hazard Independent School District's management. Our responsibility is to express an opinion on Hazard Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirement, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hazard Independent 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. Our audit does not provide a legal determination on Hazard Independent School District's compliance with those requirements.

In our opinion, Hazard Independent School District, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Hazard Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hazard Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hazard Independent 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Hazard Independent School District's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and questioned costs. We did not audit Hazard Independent School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

February 7, 2013

Hazard Independent School District
Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness identified?	No
Significant deficiencies identified?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

Child Nutrition Cluster	10.553, 10.555, & 10.559
Title I, Part A Cluster	84.010 & 84.389
Education Jobs Fund	84.410

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Hazard Independent School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section II – Financial Statement Findings

There were no findings that related to the financial statements.

Section III – Federal Award Findings and Questioned Costs

There were no findings that related to the federal awards.

Hazard Independent School District
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

There were no prior year findings at the financial statement level or at the federal award program level.

Hazard Independent School District
Corrective Action Plan
For the Year Ended June 30, 2012

The corrective actions of each individual finding was included as a response from management on each finding, if any. The corrective action completion date is to be within 30 days of receiving audit report.



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Management Points Letter

To the Board of Education
Hazard Independent School District

In planning and performing our audit of the financial statements of Hazard Independent School District for the year ended June 30, 2012, we considered the District's internal controls in order 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated February 7, 2013. This letter does not affect our report dated February 7, 2013, on the financial statements of the Hazard Independent School District. The conditions observed are as follows:

Hazard High School

None

Roy G. Eversole Middle School

12-01 Monthly Financials

Condition: Monthly financials were not kept on file by the school.
Criteria: The District and "Red Book" requires that a school keep on file the monthly and yearly financial report for each month.
Cause of Condition: During our review of the documentation presented by the school,, it was discovered that a copies of financial statements were not available for review.
Effect of Condition: The missing months of the financial information made reconciliation to the yearly report and bank statements impossible to complete.
Recommendation: It is recommended that "Red Book" procedures be followed and that monthly financials be kept on file by the school.
Response: The Central Fund Treasurer of the school has been replaced and a new treasurer has been installed and trained.

12-02 Purchase Order Use

Condition: Purchase orders are not properly being used.
Criteria: The District and "Red Book" requires purchase orders to be used on all purchases made with the exception of recurring monthly bills. Purchase orders should be issued before the purchase of the items or the service is obligated.
Cause of Condition: During our review of the documentation and paid claims presented by the school, it was found that items reviewed either did not have a purchase order included with the documentation of the purchase order was dated after the item or service was rendered.

Effect of Condition: This could cause the District to purchase something that is not in the budget or could cause it to run over budget. It could cause the School Activity Fund to purchase items that are not in the budget or items that are unallowable to be purchased. It could even cause an individual activity account to have a negative ending balance due to the expenditure not being calculated for before it was incurred. This is a repeat finding from the prior year.

Recommendation: It is recommended that “Red Book” procedures be followed and that all purchases properly use purchase orders.

Response: The Central Fund Treasurer of the school has been replaced and a new treasurer has been installed and trained.

12-03 Original Invoice

Condition: An original invoice should be reviewed and approved by the appropriate official before and expenditure is made. Further, this invoice should be retained and filed with the monthly expenditures.

Criteria: The District and “Red Book” requires that expenditures be paid on from original invoices or standard invoices in the case of officials, and that the invoices are filed with the other appropriate documentation monthly.

Cause of Condition: During our review of the documentation and paid claims presented by the school, it was found that items reviewed did not have an original invoice attached and signed as approved for inspection.

Effect of Condition: The effect of this condition could cause the school to pay an expenditure that is not owed, that has already been paid, or pay an excess amount.

Recommendation: It is recommended that “Red Book” procedures be followed and that all expenditures not be paid until an original invoice is available and signed as approved by the appropriate official.

Response: The Central Fund Treasurer of the school has been replaced and a new treasurer has been installed and trained.

12-04 Proper Voiding of Checks

Condition: All check stock that is to be void should be done so properly and retained for verification.

Criteria: Accounting practices and internal controls require that the word “VOID” be written across the face of the instrument and that the signature line of the check be removed. This helps ensure that voided checks cannot be used by an unauthorized party.

Cause of Condition: During our review of the documentation and paid claims presented by the school, it was discovered that check #1691 was not properly voided. Although the word “VOID” was written across the face of the document, the signature line was not detached.

Effect of Condition: By not properly mutilating the document, an authorized party may be able to negotiate the instrument thus allowing funds to be misappropriated.

Recommendation: It is recommended that good accounting and internal control practices be adopted and that all checks voided are done so in the manner described above.

Response: The Central Fund Treasurer of the school has been replaced and a new treasurer has been installed and trained.

12-05 Receipts / Deposits

Condition: Deposits were not being properly documented.

Criteria: The “Red Book” requires that pre-numbered receipts be used, the deposit slip be initialed by two individuals, that individual checks be listed, that deposits be made timely, and that there be proper support documentation with the receipt.

Cause of Condition: Deposits and receipts are not being properly completed or documented.

Effect of Condition: By not following proper internal control a possibility exists that a misappropriation of assets could occur.

Recommendation: It is recommended that “Red Book” procedures be followed and that all criteria be used with the deposit process.

Response: The district will has explained the importance of properly using pre-numbered receipts, that deposit slips be initialed by two individuals, that individual checks be listed, that deposits be made timely, and that the proper supporting documentation be kept in the file.

Walkertown Primary

None

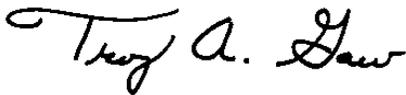
We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study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

Hazard Independent School District's responses to the findings identified in our audit as management points, if any, are described above. We did not audit Hazard Independent School District's responses and, accordingly, we express no opinion on the responses.

The following are repeat conditions from the previous year: 12-1, 12-2, 12-3, & 12-4. All other prior year conditions have been implemented and corrected. Ms. Sandra Johnson, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

February 7, 2013

REPORT OF EXAMINATION

**HAZARD INDEPENDENT
SCHOOL DISTRICT**

**FOR THE SCHOOL YEAR
ENDED JUNE 30, 2012**

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June 30, 2012

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