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**Report on Audit of Financial Statements  
and Supplementary Information**  
**for the year ended June 30, 2015**

**HOPKINS COUNTY SCHOOL DISTRICT  
Table of Contents  
for the year ended June 30, 2015**

	<u>Pages</u>
<b>Independent Auditor’s Report</b> .....	1-2
<b>Management’s Discussion and Analysis</b> .....	3-7
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position .....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13
Statement of Net Position – Proprietary Funds .....	14
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds .....	15
Statement of Cash Flows – Proprietary Funds.....	16
Statement of Fiduciary Net Position – Fiduciary Funds .....	17
Notes to the Basic Financial Statements .....	18-41

**Continued**

**HOPKINS COUNTY SCHOOL DISTRICT**  
**Table of Contents, continued**  
**for the year ended June 30, 2015**

**Required Supplementary Information:**

Schedule of Revenues, Expenditures and Changes in  
Fund Balances – Budget and Actual - General Fund ..... 42

Schedule of Revenues, Expenditures and Changes in  
Fund Balances – Budget and Actual – Special Revenue Fund..... 43

Summary of Significant Accounting Policies for Budgetary Process ..... 44

**Combining Statements/Individual Schedules – Nonmajor Funds:**

Combining Balance Sheet – Nonmajor Governmental Funds ..... 45

Combining Statement of Revenues, Expenditures and Changes in  
Fund Balances – Nonmajor Governmental Funds..... 46

Combining Schedule of Receipts, Disbursements and  
Fund Balances – All Activity Funds ..... 47

Schedule of Receipts, Disbursements and Fund  
Balances – Hopkins County Central High School Activity Funds ..... 48

Schedule of Receipts, Disbursements and Fund  
Balances – Madisonville North Hopkins High School Activity Funds ..... 49

**Schedule of Expenditures of Federal Awards**..... 50-51

**Board Members and Administrative Personnel**..... 52

**Independent Auditor’s Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*** ..... 53-54

**Independent Auditor’s Report on Compliance for Each Major Program and on Internal  
Control over Compliance Required by OMB Circular A-133**..... 55-56

**Schedule of Findings and Questioned Costs**..... 57-58

**Management Letter**..... 59-65



**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hopkins County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hopkins County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal Year 2014-2015 Financial Audit Contract. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hopkins County School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015, on our consideration of the Hopkins County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hopkins County School District's internal control over financial reporting and compliance.

Alford, Nance & Jones, LLP  
November 6, 2015



## MANAGEMENT DISCUSSION & ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2015

### FINANCIAL HIGHLIGHTS

- The Board of Education approved the 4% tax rate of 62.1 cents per \$100 of assessed value for both real and personal property for fiscal year 2015. The rate generated \$1,174,311 more tax revenue compared to fiscal year 2014.
- The General Fund had \$54.5 million in revenue, which primarily consists of SEEK (State Funding), property and motor vehicle taxes, and on behalf revenue reported for payments made at the state level in the name of the school district. There were \$55.2 million in General Fund Expenditures.
- The Board of Education approved a State mandated 1% salary increase for fiscal year 2015.
- Food Services participated in the Community Eligibility Program that provided free breakfast and lunch for all elementary school children.
- Litigation continued against all persons and legal entities that have potential liability or responsibility for the construction defects in the old Hopkins County Schools Career & Technology Center.
- Construction began on the new Hopkins County Schools Career & Technology Center with the issue of Bond Anticipation Notes by the Board and Bond Series 2014 by the School Facility Construction Commission.
- The Board received \$183,414 in donations for a baseball building and \$19,571 for softball restrooms at Madisonville North Hopkins High School.
- The Board approved the purchase of 3 new special education buses for fiscal year 2015.
- The District implemented the new requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions: an amendment of GASB Statement No. 27. This resulted in the reduction of beginning net position of \$11,499 million for Governmental Activities and \$1,775 million for Business-Type Activities.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### **1. Government-wide Financial Statements**

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

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

## 2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of the districts may be divided into three categories:

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

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

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

## 3. Notes to the Financial Statements

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$7 million as of June 30, 2015.

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

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

### **NET POSITION FOR THE PERIOD ENDING JUNE 30, 2015**

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

	<u>2014-2015FY</u>	<u>2013-2014FY</u>
Current Assets	\$ 12,324,800	\$ 10,170,908
Restricted Assets	1,451,580	4,568,481
Capital Assets, net of accumulated depreciation	54,488,225	47,994,908
<b>TOTAL ASSETS</b>	<b>\$ 68,264,605</b>	<b>\$ 62,734,297</b>
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>\$ 1,609,750</b>	<b>\$ 466,698</b>
Current Liabilities	\$ 9,069,132	\$ 7,926,698
Noncurrent Liabilities	52,131,612	36,219,107
<b>TOTAL LIABILITIES</b>	<b>\$ 61,200,744</b>	<b>\$ 44,145,805</b>
<b>TOTAL DEFERRED INFLOWS</b>	<b>\$ 1,576,000</b>	<b>\$ -</b>
Net Position		
Investment in Capital Assets (Net of Debt)	\$ 13,572,744	\$ 10,308,106
Restricted for:		
Capital Projects	\$ -	\$ 3,852,014
Debt Service	388,079	370,913
Unrestricted Fund Balance	(6,863,212)	4,524,157
<b>Total Net Position</b>	<b>\$ 7,097,611</b>	<b>\$ 19,055,190</b>

## COMMENTS ON BUDGET COMPARISONS

- The District's total revenues for the fiscal year ended June 30, 2015 net of inter fund transfers, were \$70 million.
- The difference between the original and final budget figures occurred due to:
  1. Fewer budget adjustments were made in fiscal year 2015 between the tentative budget and final working budget due to lack of funding sources.
  2. The district did adjust budget allocations between support service types as a result of budget analysis and chart of account changes.
  3. The budget for instructional staff support and district administrative support services was increased due to step up in years of service and 1% salary increases.
  4. The budget for district employee benefits was adjusted based on the change in employer portion of benefits, including retirement.
  5. Due to a history of unscheduled revenue adjustments for the SEEK program and uncertainty related to grant funding, the District adopted a very conservative approach to budgeting revenues.



The following presents a summary of revenue and expenditures for the fiscal year ended June 30, 2015

	<u>2014-2015FY</u>	<u>2013-2014FY</u>
<b>GENERAL REVENUES</b>		
Property Taxes	\$ 13,882,853	\$ 12,708,542
Motor Vehicle Taxes	1,745,414	1,711,847
Unmined Mineral Taxes	298,106	512,947
Other Taxes	115,518	223,608
Intergovernmental - Local	116,976	113,391
Investment Earnings	66,051	62,822
Student Activities	454,286	38,684
Other Local Revenue	237,393	38,425
Gain (Loss) on Disposal of Fixed Assets	3,362	178,124
State and Formula Grants	39,345,617	37,985,059
<b>PROGRAM REVENUES</b>		
Charges for Services	653,531	752,146
Operations Grants and Contributions	10,040,527	9,550,001
Capital Grants and Contributions	2,986,096	2,551,297
<b>TOTAL REVENUES</b>	<b>\$ 69,945,730</b>	<b>\$ 66,426,893</b>
<b>EXPENSES</b>		
Instruction	39,204,612	38,916,609
Student Support	2,196,865	2,320,832
Instruction Staff Support	2,631,328	2,219,470
District Administrative Support	1,552,446	1,418,036
School Administrative Support	3,696,962	3,608,647
Business Support	2,234,101	1,657,937
Plant Operations and Maintenance	7,679,509	8,153,391
Student Transportation	3,842,312	3,878,604
Other Instructional	13,401	16,503
Community Services Activities	608,731	624,191
Interest on Long-Term Debt	1,232,245	1,186,638
Debt Issuance Cost	65,656	-
Amortization of Bond Premium/Discounts, Net	(7,712)	43,292
Food Services	3,553,261	3,718,772
Child Care	125,592	185,537
<b>TOTAL EXPENSES</b>	<b>\$ 68,629,309</b>	<b>\$ 67,948,459</b>
Changes in Net Position	\$ 1,316,421	\$ (1,521,566)
Prior period adjustments	\$ (13,274,000)	\$ (1,857,812)
Net Position, Beginning	\$ 19,055,190	\$ 22,434,568
Net Position, Ending	\$ 7,097,611	\$ 19,055,190

#### GENERAL FUND REVENUE

Total Revenues are \$54,503,959. The majority of revenue was derived from State Funding - \$39,327,308 or 72%, Local Funding makes up \$15,072,323 or 28%, and other revenues of \$104,328 are less than 1%. Compared to prior year, State Funding increased by \$1,315 million due to an increase in on behalf payments. Only \$298,116 was a direct increase in SEEK (Support Education Excellence in Kentucky) funding. Local Funding sources fluctuated for a total

increase of \$1,035 million. The small increase in State Funding actually received by the school district shows how the demand for local support is increasing each year.

### **GENERAL FUND EXPENDITURES**

Approximately 82% of the general fund expenditures were for instruction and administration, some of which was directed by the Site Based Decision Making Councils. Plant operation and maintenance make up 12% of General Fund expenditures and transportation is the remaining 6%.

### **SCHOOL ALLOCATION**

Regular instruction accounts for approximately 78% of the school level expenditures. School level expenditures include instruction, student support, instruction staff, district administration and school administration. Total instruction includes regular instruction such as salaries and instructional support such as salaries for support personnel and classroom instructional assistants. Total instructional expenses are \$41,402,106 regular instruction and \$1,657,324 instructional support staff.

### **DISTRICT SUPPORT SERVICES ALLOCATION**

Among the central support services expenses are Transportation \$3,531,364, Maintenance and Operation \$6,369,933, and District Administrative and Business Functions \$2,272,447.

### **FUND BALANCE**

Beginning fund balance was \$4,346,036, Revenues \$54,503,959, Expenses \$55,233,174, and total other funding sources (uses) of \$1,983,543 for a net change in fund balance of \$1,254,328 to reflect an ending fund balance for Fiscal Year 2014-15 of \$5,600,364.

### **BUSINESS TYPE ACTIVITIES**

Food Services ended the year with Total Assets and Deferred Outflows of \$1,375,169 and Total Liabilities and Deferred Inflows of \$1,969,609 which left them with Total Net Position of \$(594,440). This negative Net Position is related to the recognition of net pension liability of \$1,580,887 required under GASB 68. The Food Service Fund had Total Operating Revenues of \$470,647 versus \$507,651 for the previous year. Total Non-operating Revenues which include Federal and State Grants amounted to \$3,100,480 versus \$3,148,319 for the previous year.

### **OTHER FUNDS**

Fund 2 contains all of the state and federal grants. There was an increase in fund 2 revenue of \$883,767 compared to prior year.

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

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

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

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

### **BUDGETARY IMPLICATIONS**

In Kentucky the public schools fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$2.5 million in contingency. The beginning general fund balance for fiscal year 2016 is \$5.6 million. Significant changes that could impact the finances in future years include the Career and Technical Center and the related litigation, 2% state mandated salary increase for fiscal year 2016, SEEK funding cuts across the state.

Questions regarding this report should be directed to Linda Q. Zellich, Superintendent or Eydie L. Tate, Director of Finance (270) 825-6000 or by mail at 320 South Seminary Street, Madisonville, KY 42431.

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

<b>Assets</b>	Governmental Activities	Business- Type Activities	Total
Cash and cash equivalents	\$9,224,900	\$1,052,615	\$10,277,515
Receivables:			
Taxes	171,278		171,278
Accounts receivable	516,406	55,970	572,376
Intergovernmental – State	84,757		84,757
Intergovernmental – Indirect federal	810,057		810,057
Inventories	229,541	67,876	297,417
Prepaid expenses	111,400		111,400
Restricted investments	388,079		388,079
Restricted cash	1,063,501		1,063,501
Capital assets, net of accumulated depreciation	<u>54,445,962</u>	<u>42,263</u>	<u>54,488,225</u>
<b>Total Assets</b>	<u>67,045,881</u>	<u>1,218,724</u>	<u>68,264,605</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows from CERS contributions	<u>1,397,400</u>	<u>212,350</u>	<u>1,609,750</u>
<b>Total Deferred Outflows</b>	<u>1,397,400</u>	<u>212,350</u>	<u>1,609,750</u>
<b>Liabilities</b>			
Accounts payable	1,115,998	156	1,116,154
Accrued payroll and related expenses	3,356,915	175,851	3,532,766
Accrued interest payable	237,244		237,244
Unearned revenue	929,231	24,408	953,639
Current portion of bond obligations, net	2,859,505		2,859,505
Current portion of accrued sick leave	365,830	3,994	369,824
Current portion of insurance assessment			0
Noncurrent Liabilities:			
Noncurrent portion of bond obligations, net	38,055,976		38,055,976
Noncurrent portion of accrued sick leave	993,174	15,878	1,009,052
Insurance assessment	198,584		198,584
Net pension liability	<u>11,147,685</u>	<u>1,720,315</u>	<u>12,868,000</u>
<b>Total Liabilities</b>	<u>59,260,142</u>	<u>1,940,602</u>	<u>61,200,744</u>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows from CERS contributions	<u>1,244,022</u>	<u>191,978</u>	<u>1,436,000</u>
Unavailable revenues - property taxes	<u>140,000</u>		<u>140,000</u>
<b>Total Deferred Inflows</b>	<u>1,384,022</u>	<u>191,978</u>	<u>1,576,000</u>
<b>Net Position</b>			
Net investment in capital assets	13,530,481	42,263	13,572,744
Restricted for:			
Capital projects			0
Debt service	388,079		388,079
Unrestricted	<u>(6,119,443)</u>	<u>(743,769)</u>	<u>(6,863,212)</u>
<b>Total Net Position</b>	<u>\$7,799,117</u>	<u>(\$701,506)</u>	<u>\$7,097,611</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>						
<b>Governmental Activities:</b>						
Instruction	\$39,204,612	\$5,014,647	\$302,833	(\$33,782,804)		(\$33,782,804)
Support services:						
Student	2,196,865	200,892		(1,995,973)		(1,995,973)
Instruction staff	2,631,328	977,695		(1,653,633)		(1,653,633)
District administrative	1,552,446			(1,552,446)		(1,552,446)
School administrative	3,686,962			(3,686,962)		(3,686,962)
Business	2,234,101	3,503		(2,230,598)		(2,230,598)
Plant operation and maintenance	7,679,509	67,332		(7,612,177)		(7,612,177)
Student transportation	3,842,312			(3,842,312)		(3,842,312)
Other instructional	13,401	3,234		(10,167)		(10,167)
Facilities acquisition and construction		512	2,384,937	2,385,449		2,385,449
Community service activities	608,731	636,542		27,811		27,811
Interest on long-term debt	1,232,245		298,326	(933,919)		(933,919)
Debt issuance cost	65,656			(65,656)		(65,656)
Amortization of bond premiums/discoun, net	(7,712)			7,712		7,712
<b>Total governmental activities</b>	<b>64,950,456</b>	<b>6,903,845</b>	<b>2,986,096</b>	<b>(54,955,675)</b>	<b>-</b>	<b>(54,955,675)</b>
<b>Business-Type Activities:</b>						
Food service	3,553,261	470,647			\$15,117	15,117
Child care	125,592	78,044			(8,597)	(8,597)
<b>Total business-type activities</b>	<b>3,678,853</b>	<b>548,691</b>	<b>-</b>	<b>-</b>	<b>6,520</b>	<b>6,520</b>
<b>Total primary government</b>	<b>\$68,629,309</b>	<b>\$653,531</b>	<b>\$10,040,527</b>	<b>(54,955,675)</b>	<b>6,520</b>	<b>(54,949,155)</b>
<b>General Revenues:</b>						
Taxes:						
Property taxes				13,882,853		13,882,853
Motor vehicle taxes				1,745,414		1,745,414
Unimproved mineral taxes				298,106		298,106
Other				115,518		115,518
Intergovernmental - local				116,976		116,976
Investment earnings				63,129	2,922	66,051
Student activities				454,286		454,286
Other local revenue				237,393		237,393
Gain (loss) on disposal of capital assets				3,362		3,362
State and formula grants				39,345,617		39,345,617
Change in net position				1,306,979	9,442	1,316,421
Net position, July 1, 2014, as originally reported				17,991,545	1,063,645	19,055,190
Prior period adjustments				(11,499,407)	(1,774,593)	(13,274,000)
Net position, July 1, 2014, as restated				6,492,138	(710,948)	5,781,190
Net position, June 30, 2015				\$7,799,117	(\$701,506)	\$7,097,611

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

**HOPKINS COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General Fund	Special Revenue Grant Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$8,710,216	\$233,180		\$ 281,504	\$9,224,900
Receivables:					
Taxes	171,278				171,278
Accounts receivable	516,406				516,406
Intergovernmental - State					-
Intergovernmental - Indirect federal		810,057			810,057
Due from other funds					-
Prepaid expenses	3,500			107,900	111,400
Restricted investments				388,079	388,079
Restricted cash	56,090		\$1,007,411		1,063,501
<b>Total Assets</b>	<u>\$9,457,490</u>	<u>\$1,043,237</u>	<u>\$1,007,411</u>	<u>\$777,483</u>	<u>\$12,285,621</u>
<b>Liabilities</b>					
Accounts payable	\$99,056	\$9,331	\$570,591	\$ 200	\$679,178
Accrued payroll and related expenses	2,882,963	473,952			3,356,915
Retainage payable			436,820		436,820
Current portion of accrued sick leave	365,830				365,830
Unearned revenue	509,277	559,954			1,069,231
Due to other funds					-
<b>Total Liabilities</b>	<u>3,857,126</u>	<u>1,043,237</u>	<u>1,007,411</u>	<u>200</u>	<u>5,907,974</u>
<b>Fund Balances</b>					
Nonspendable:					
Prepaid expenses	3,500			107,900	111,400
Restricted:					
Capital projects					0
Debt service				388,079	388,079
Committed:					
Site-base carryforward	225,139				225,139
District Activity Fund				281,304	281,304
Assigned:					
Encumbrances					0
Unassigned:					
General fund	5,371,725				5,371,725
<b>Total Fund Balances</b>	<u>5,600,364</u>	<u>-</u>	<u>0</u>	<u>777,283</u>	<u>6,377,647</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$9,457,490</u>	<u>\$1,043,237</u>	<u>\$1,007,411</u>	<u>\$777,483</u>	<u>\$12,285,621</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

Amounts reported for governmental activities in the statement of net position are different because:	
Total fund balance - governmental funds	\$6,377,647
Inventory is not reported in this fund financial statement because the supplies are not current financial resources, but it is reported in the statement of net position.	229,541
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	54,530,719
Deferred outflows of resources related to pension contributions/liabilities are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.	1,397,400
Deferred inflows of resources related to pension contributions/liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	(1,244,022)
Certain liabilities (such as net bonds payable, the long-term portion of accrued sick leave, insurance assessment, net pension liability and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(53,492,168)</u>
Net position of governmental activities	<u><u>\$7,799,117</u></u>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Special Revenue Grant Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes:					
Property	\$12,562,986			\$1,319,867	\$13,882,853
Motor vehicle	1,745,414				1,745,414
Unmined mineral	298,106				298,106
Other	115,518				115,518
Earnings on investments	29,696	\$1,355	\$14,911	17,167	63,129
Student activities	328	31,467		422,491	454,286
Other local revenues	203,299	34,606			237,905
Intergovernmental - Local	116,976				116,976
Intergovernmental - State	39,327,308	2,295,011		2,683,263	44,305,582
Intergovernmental - Indirect federal		4,777,224			4,777,224
Intergovernmental - Direct federal	104,328	134,443			238,771
<b>Total revenues</b>	<b>54,503,959</b>	<b>7,274,106</b>	<b>14,911</b>	<b>4,442,788</b>	<b>66,235,764</b>
<b>Expenditures:</b>					
Current:					
Instruction	34,209,056	5,535,665		114,907	39,859,628
Support services:					
Student	1,965,434	200,892		26,280	2,192,606
Instruction staff	1,657,324	977,695			2,635,019
District administrative	1,470,384				1,470,384
School administrative	3,747,065				3,747,065
Business	2,272,447	3,503			2,275,950
Plant operation and maintenance	6,369,933	67,332			6,437,265
Student transportation	3,531,364				3,531,364
Other instructional	10,167	3,234			13,401
Community service activities		636,542			636,542
Capital outlay:					
Facilities acquisition and construction			8,094,462		8,094,462
Debt service:					
Principal				2,844,170	2,844,170
Interest				1,224,251	1,224,251
Issuance costs				65,656	65,656
<b>Total expenditures</b>	<b>55,233,174</b>	<b>7,424,863</b>	<b>8,094,462</b>	<b>4,275,264</b>	<b>75,027,763</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(729,215)</b>	<b>(150,757)</b>	<b>(8,079,551)</b>	<b>167,524</b>	<b>(8,791,999)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from bonds issued				4,155,000	4,155,000
Proceeds from bond anticipation notes issued				2,355,000	2,355,000
Premium on bonds issued				29,891	29,891
Discount on bonds issued				(7,960)	(7,960)
Proceeds from disposal of fixed assets	16,582				16,582
Transfers in	4,353,459	150,757	8,580,994	3,029,943	16,115,153
Transfers out	(2,386,498)		(4,353,457)	(9,375,198)	(16,115,153)
<b>Total other financing sources (uses)</b>	<b>1,983,543</b>	<b>150,757</b>	<b>4,227,537</b>	<b>186,676</b>	<b>6,548,513</b>
<b>Net change in fund balance</b>	<b>1,254,328</b>	<b>0</b>	<b>(3,852,014)</b>	<b>354,200</b>	<b>(2,243,486)</b>
<b>Fund balance, July 1, 2014</b>	<b>4,346,037</b>	<b>0</b>	<b>3,852,014</b>	<b>423,083</b>	<b>8,621,133</b>
<b>Fund balance, June 30, 2015</b>	<b>\$5,600,365</b>	<b>\$0</b>	<b>\$0</b>	<b>\$777,283</b>	<b>\$6,377,647</b>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

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

Net change in fund balances - total governmental funds	\$ (2,243,486)
Inventory is expensed under the purchases method in the fund financial statements, but must be reported as assets in the statement of net position	(11,654)
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed (are less than) depreciation expense for the year.	6,513,301
The proceeds for the issuance of bonds and bond anticipation notes provide current financial resources and are reported in this fund financial statement, but they are presented as liabilities in the statement of net position.	(6,510,000)
Bond premiums, call premiums and discounts are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as deferred outflows in the statement of activities and amortized over the remaining life of the bonds. The difference is the amount by which the actual costs exceeds (are less than) amortization expenses for the year.	14,219
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to increase (decrease) net position.	(7,113)
Bond payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.	2,844,170
Payments to bond escrow agents are recognized as other financing uses in the fund financial statements, but are reductions in liabilities in the statement of net position.	-
Accruals of intergovernmental - state revenue related to interest paid on-behalf of the District by the state on long-term debt is not reported in this fund financial statement, but is presented as a receivable in the statement of net position.	(18,309)
Accruals of interest and noncurrent sick leave do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental fund statements.	107,697
Net effect of deferred inflows and deferred outflows related to pension contributions	505,100
Payments on the insurance assessment are expensed in the fund financial statements, but are reductions in liabilities in the statement of net position.	113,054
	<hr/>
Change in net position of governmental activities	<u>\$ 1,306,979</u>

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



**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015**

	Food Service Fund	Child Care Fund	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$1,009,184	\$43,431	\$1,052,615
Inventory	67,876		67,876
Accounts receivable			
Intergovernmental - Indirect federal			0
Other, net	55,970		55,970
Total current assets	<u>1,133,030</u>	<u>43,431</u>	<u>1,176,461</u>
Noncurrent assets			
Capital assets	1,034,743		1,034,743
Less: Accumulated depreciation	(992,480)		(992,480)
Total noncurrent assets	<u>42,263</u>	<u>-</u>	<u>42,263</u>
<b>Total assets</b>	<u>1,175,293</u>	<u>43,431</u>	<u>1,218,724</u>
Deferred Outflows of Resources			
Deferred Outflows from 2015 CERS Contribution	199,876	12,474	212,350
Total Deferred Outflows	<u>199,876</u>	<u>12,474</u>	<u>212,350</u>
<b>Total Assets and Deferred Outflows</b>	<u>\$1,375,169</u>	<u>\$55,905</u>	<u>\$1,431,074</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		\$156	\$156
Accrued payroll and related expenses	\$168,024	7,827	175,851
Current portion - accrued sick leave	3,994		3,994
Unearned revenue	24,408		24,408
Total current liabilities	<u>196,426</u>	<u>7,983</u>	<u>204,409</u>
Noncurrent liabilities			
Accrued sick leave	15,878		15,878
Net pension liability	1,580,887	139,428	1,720,315
Total noncurrent liabilities	<u>1,596,765</u>	<u>139,428</u>	<u>1,736,193</u>
<b>Total liabilities</b>	<u>1,793,191</u>	<u>147,411</u>	<u>1,940,602</u>
Deferred Inflows of Resources:			
Deferred Inflows from 2015 CERS Contribution	176,418	15,560	191,978
<b>Total Deferred Inflows</b>	<u>176,418</u>	<u>15,560</u>	<u>191,978</u>
<b>Net Position</b>			
Net investment in capital assets	42,263		42,263
Unrestricted	(636,703)	(107,066)	(743,769)
<b>Total net position</b>	<u>(594,440)</u>	<u>(107,066)</u>	<u>(701,506)</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<u>\$1,375,169</u>	<u>\$55,905</u>	<u>\$1,431,074</u>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Food Service Fund	Child Care Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Operating Revenues:</b>			
Lunchroom sales	\$387,209		\$387,209
Community service activities		\$78,044	78,044
Other operating revenues	83,438		83,438
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total operating revenues</b>	<b>470,647</b>	<b>78,044</b>	<b>548,691</b>
<b>Operating Expenses:</b>			
Salaries and wages	1,188,403	70,596	1,258,999
Employee benefits	631,595	42,157	673,752
Contract services	71,185	3,862	75,047
Materials and supplies	1,650,258	8,977	1,659,235
Depreciation	11,820		11,820
Other operating expenses			0
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total operating expenses</b>	<b>3,553,261</b>	<b>125,592</b>	<b>3,678,853</b>
<b>Operating loss</b>	<b>(3,082,614)</b>	<b>(47,548)</b>	<b>(3,130,162)</b>
<b>Nonoperating Revenues (Expenses):</b>			
Federal grants	2,648,217		2,648,217
State grants	449,514	38,951	488,465
Interest income	2,749	173	2,922
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total nonoperating revenues     (expenses)</b>	<b>3,100,480</b>	<b>39,124</b>	<b>3,139,604</b>
<b>Change in net position</b>	<b>17,866</b>	<b>(8,424)</b>	<b>9,442</b>
<b>Net position, July 1, 2014, as restated</b>	<b>(612,306)</b>	<b>(98,642)</b>	<b>(710,948)</b>
<b>Net position, June 30, 2015</b>	<b><u>(\$594,440)</u></b>	<b><u>(\$107,066)</u></b>	<b><u>(\$701,506)</u></b>

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

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Food Service Fund	Child Care Fund	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from:			
Lunchroom sales	\$383,971		\$383,971
Community service activities		\$78,044	78,044
Other operating activities	83,438		83,438
Cash paid to/for:			
Employees	(1,479,790)	(92,193)	(1,571,983)
Supplies	(1,421,651)	(8,938)	(1,430,589)
Other activities	(71,185)	(3,861)	(75,046)
<b>Net cash provided (used) by operating activities</b>	<u>(2,505,217)</u>	<u>(26,948)</u>	<u>(2,532,165)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Government grants	2,447,425	14,166	2,461,591
Insurance proceeds			0
Transfer in from other fund			0
<b>Net cash provided (used) by noncapital financing activities</b>	<u>2,447,425</u>	<u>14,166</u>	<u>2,461,591</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets			0
<b>Net cash provided (used) by capital and related financing activities</b>	<u>-</u>	<u>-</u>	<u>0</u>
<b>Cash Flows from Investing Activities</b>			
Receipt of interest income	2,749	173	2,922
<b>Net cash provided (used) by investing activities</b>	<u>2,749</u>	<u>173</u>	<u>2,922</u>
Net increase (decrease) in cash and cash equivalents	(55,043)	(12,609)	(67,652)
<b>Balances, beginning of year</b>	<u>1,064,227</u>	<u>56,040</u>	<u>1,120,267</u>
<b>Balances, end of year</b>	<u>\$1,009,184</u>	<u>\$43,431</u>	<u>\$1,052,615</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	(\$3,082,614)	(\$47,548)	(\$3,130,162)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	11,820		11,820
On-behalf payments	413,506	24,784	438,290
Commodities received	236,800		236,800
Change in assets and liabilities			
Receivables - other	(5,584)		(5,584)
Inventory	(8,189)		(8,189)
Accounts payable	(4)	39	35
Accrued payroll & related expense	9,786	(2,910)	6,876
Accrued sick leave	(9,748)		(9,748)
Deferred revenue	2,346		2,346
Net pension liability	(73,336)	(1,313)	(74,649)
<b>Net cash provided (used) by operating activities</b>	<u>(\$2,505,217)</u>	<u>(\$26,948)</u>	<u>(\$2,532,165)</u>
<b>Schedule of non-cash transactions:</b>			
Donated commodities received from federal government	\$236,800		\$236,800
Benefits paid by state of Kentucky on behalf of District	\$413,506	\$24,784	\$438,290

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

**HOPKINS COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2015**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$553,539
Accounts receivable	<u>0</u>
<b>Total assets</b>	<u><u>\$553,539</u></u>
<b>Liabilities</b>	
Accounts payable	\$7,655
Due to student groups	<u>545,884</u>
<b>Total liabilities</b>	<u><u>\$553,539</u></u>

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

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

### 1. Reporting Entity

The Hopkins County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hopkins County School District (District). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental reporting entity, as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

Blended Component Unit:

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

### 2. Summary of Significant Accounting Policies

#### (a) Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The effect of interfund activity has been substantially removed from these statements.

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

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

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

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

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

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

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

The District had the following funds:

Governmental Fund Types

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- 2) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.
  - a) The Special Revenue (Grant) Fund accounts for proceeds of federal, state and local grants that are legally restricted to disbursements for specified purposes. Unused balances are returned to the grantor at the close of the specified project periods. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
  - b) The District Activity Fund is used to account for funds to support co-curricular and extracurricular activities not raised or expended by student groups.
- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

- a) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan and for the corresponding debt service.
  - b) The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan and for the corresponding debt service.
  - c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

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

(b) Basis of Accounting

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

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

(a) Basis of Presentation, continued

thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

(c) Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. A capitalization threshold applies to tangible property costing \$5,000 or more and has a useful life of more than one (1) year, all computers regardless of value, and theft sensitive items that maybe identified by the District. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

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



HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

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

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

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

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

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

(e) Accounts Receivable

An allowance for doubtful accounts is provided for accounts receivable in the Food Service Fund. Accounts receivable are reported net of this allowance, which was \$3,236 as of June 30, 2015.

(f) Inventories/Commodities

Supplies and materials are charged to expenditures when purchased at the fund statement level, with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Similarly, due to the economic resources measurement focus, bus garage supply inventories are reported as an asset on the District-wide Statement of Net Position. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method. For the purposes of the statement of cash flows, federal grants received does not include noncash commodities received in the amount of \$236,800.

(g) Accrued Liabilities/Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond discounts and premiums are netted against the bond principal and are amortized on a straight-line basis over the life of the bonds.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

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

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

(h) Net Position and Fund Balance

District-Wide Financial Statements

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

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

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

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

Governmental Fund Financial Statements

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

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

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

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

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

2. Summary of Significant Accounting Policies, continued

(h) Net Position and Fund Balance, continued

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

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

(i) Interfund Activity

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

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

(j) Estimates

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

(k) Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

(l) Compensated Absences (Accrued Sick Leave)

The Hopkins County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to employees

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

**2. Summary of Significant Accounting Policies, continued**

**(l) Compensated Absences (Accrued Sick Leave), continued**

with more than twenty years of experience. Separation of employment for any reason other than retirement results in the employee forfeiting all accumulated sick and personal leave.

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

**(m) Encumbrance Accounting**

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

**(n) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(o) Prepaid Expenses**

Payments made that will benefit periods beyond June 30, 2015 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

**3. Property Taxes**

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the Hopkins County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 62.1 cents per \$100 of assessed valuation on real estate and 62.1 on personal property, of which 6.1 cents is for participation in the Facility Support Program, and 54.7 cents per \$100 of assessed valuation on motor vehicles.

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

4. Deposits and Investments

At June 30, 2015, the carrying amount of the District's deposits was \$12,282,634 and the bank balance was \$14,224,101. Of the bank balances, \$919,782 was insured by federal depository insurance, \$13,270,197 was covered by collateral held by the pledging bank's agent and \$34,122 was federally insured by the National Credit Union Share Insurance Fund.

The District's deposits at June 30, 2015 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Old National Bank - demand	\$ 109,410	\$ 107,614
US Bank - demand	-	-
Fifth Third Bank - demand	422,293	399,185
Hopkins County Credit Union - demand	34,122	34,122
First United Bank - demand	13,270,197	11,353,634
The Cecilian Bank - certificate of deposit	<u>388,079</u>	<u>388,079</u>
	<u>\$ 14,224,101</u>	12,282,634
Restricted cash		(1,063,501)
Restricted investments		<u>(388,079)</u>
Unrestricted cash and cash equivalents		<u>\$ 10,831,054</u>
Reported in the financial statements:		
Governmental funds: cash and cash equivalents (excluding petty cash of \$100)		\$ 9,224,900
Proprietary funds: cash and cash equivalents		1,052,615
Fiduciary funds: cash and cash equivalents		<u>553,539</u>
		<u>\$ 10,831,054</u>

5. Restricted Cash and Investments

Restricted cash at June 30, 2015 consists of the following:

<u>General Fund</u>	
Flexible Spending Account	\$ 56,090
<u>Capital Projects Funds</u>	
Construction Fund	<u>1,007,411</u>
Total Restricted Cash	<u>\$ 1,063,501</u>

Restricted investments at June 30, 2015 consists of the following:

Debt Service Fund (QZAB certificate of deposit)	<u>\$ 388,079</u>
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HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

6. Capital Assets

During the year ended June 30, 2015, the following changes occurred in capital assets:

Governmental Activities:	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Not depreciated:				
Land and land improvements	\$ 2,054,043	\$ 15,614	\$ -	\$ 2,069,657
Construction in progress	412,266	7,955,982	5,058	8,363,190
Totals not being depreciated	<u>2,466,309</u>	<u>7,971,596</u>	<u>5,058</u>	<u>10,432,847</u>
Depreciated:				
Buildings and improvements	68,267,187	24,629		68,291,816
Technology equipment	900,951	50,406	24,277	927,080
Vehicles	7,083,644	302,833	167,591	7,218,886
General equipment	4,052,758	119,998	73,660	4,099,096
Totals at historical cost	<u>80,304,540</u>	<u>497,866</u>	<u>265,528</u>	<u>80,536,878</u>
Less accumulated depreciation:				
Buildings and improvements	25,467,113	1,334,207		26,801,320
Technology equipment	700,934	75,630	22,077	754,487
Vehicles	4,936,734	472,030	167,591	5,241,173
General equipment	3,725,243	69,236	67,696	3,726,783
Total accumulated depreciation	<u>34,830,024</u>	<u>1,951,103</u>	<u>257,364</u>	<u>36,523,763</u>
Depreciated assets, net	<u>45,474,516</u>	<u>(1,453,237)</u>	<u>8,164</u>	<u>44,013,115</u>
Governmental Activities Capital Assets - Net	<u>\$ 47,940,825</u>	<u>\$ 6,518,359</u>	<u>\$ 13,222</u>	<u>\$ 54,445,962</u>
Business-Type Activities:				
Depreciated:				
General equipment	\$ 1,026,594	\$ -		\$ 1,026,594
Technology equipment	8,149	-		8,149
Totals at historical cost	<u>1,034,743</u>	<u>-</u>	<u>-</u>	<u>1,034,743</u>
Less accumulated depreciation:				
General equipment	972,511	11,820		984,331
Technology equipment	8,149			8,149
Total accumulated depreciation	<u>980,660</u>	<u>11,820</u>	<u>-</u>	<u>992,480</u>
Business-Type Activities Capital Assets - Net	<u>\$ 54,083</u>	<u>\$ (11,820)</u>	<u>\$ -</u>	<u>\$ 42,263</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 53,868
Support services:	
Student	6,746
Instruction staff	1,025
District administrative	87,401
School administrative	4,881
Business	1,941
Plant operation and maintenance	1,373,682
Student transportation	417,434
Community service activities	<u>4,125</u>
Total depreciation expense	<u>\$ 1,951,103</u>

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

7. Long-Term Debt

Bonds

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

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1996 (PES)	\$ 465,000	4.30% - 5.00%
Issue of 2003 (Energy)	2,050,000	1.10% - 3.60%
Issue of 2004 (BSMS)	10,000,000	1.90% - 4.375%
Issue of 2004 (QZAB)	500,000	N/A (tax credits, in lieu of)
Issue of 2005 (BSMS)	1,800,000	2.85% - 4.25%
Issue of 2006 (PES)	1,545,000	3.40% - 4.00%
Issue of 2007 (Refunding) (MNHHS)	3,605,000	3.70% (term)
Issue of 2008 (Refunding) (GES)	1,780,000	2.50% - 3.25%
Issue of 2009 (Energy)	5,150,000	2.00% - 4.50%
Issue of 2009 (Refunding-WBES,EES,HES,WHS)	2,705,000	2.00% - 3.50%
Issue of 2011A (Career and Technical Center)	9,030,000	2.00% - 4.625%
Issue of 2011B (Refunding 2001)	9,320,000	2.00% - 3.00%
Issue of 2012 (Refunding 2004-BSMS)	9,150,000	1.00% - 2.375%
Issue of 2013 (Refunding 2005-BSMS)	1,215,000	1.70% - 2.10%
Issue of 2014 (HCCTCII)	4,155,000	2.25%-3.125%
Issue of 2014 BANS (HCTCCII)	2,355,000	1.00%

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

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

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

Hopkins County School District Finance Corporation Qualified Zone Academy Bonds, Series of 2004, dated December 21, 2004 in the amount of \$500,000 were issued for the purpose of providing funds to pay the cost, not otherwise provided, of renovating the Browning Springs Middle School. A certificate of deposit was purchased (currently \$388,079) bearing interest at 4.55% which will mature in December, 2020. Interest earned is reinvested annually into the certificate of deposit. The maturity and interest rate were determined in order to yield an amount at maturity of \$500,000, sufficient to retire the \$500,000 QZAB bond upon its maturity.

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

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

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

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

##### Bonds, continued

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

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

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

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2009, dated May 20, 2009, in the amount of \$2,705,000 were issued to (i) provide for refunding of the Hopkins County School District Finance Corporation School Building Revenue Bonds Series 1999-A, at a redemption price of 101% of the principal amount redeemed; and (ii) provide for the refunding of the Hopkins County School District Finance Corporation School Building Revenue Bonds Series 2000, at a redemption price of 101%. Net proceeds of \$843,531 were placed in an escrow account from which State and Local Government Securities (SLGS) were purchased for the purpose of generating resources for the future debt service payments on \$795,000 of refunded debt. As a result, \$795,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2000 were considered to be defeased and the liability was removed from long-term debt. This refunding (1999-A) and advance refunding (2000) was undertaken to reduce total debt service payment over the next eleven years by \$230,031 and resulted in an economic gain of \$195,233. The outstanding balance of the defeased 1999-A and 2000 bonds was \$1,230,000 as of June 30, 2015.

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

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2011B, dated April 19, 2011, in the amount of \$9,320,000, were issued for the purpose of refunding the outstanding Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2001, dated January 15, 2001, scheduled to mature on and after June 1, 2012. The redemption price is 101% resulting in a redemption call premium of \$90,850. This refunding was undertaken to reduce total debt service payments over the next nine years by \$969,523 and resulted in an economic gain of \$889,520. In June, 2012 the remaining balance of the defeased 2001 bonds were redeemed.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2012 dated February 7, 2012 in the amount of \$9,150,000, were issued for the purpose of refunding through escrow a portion of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2004, dated October 15, 2004, scheduled to mature on and after October 1, 2020 (the "Bonds of 2004"), issued by the Corporation by providing for the payment of the interest on the Bonds of 2004 due and payable on and



# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

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

##### **Bonds, continued**

prior to October 1, 2014, and by calling for redemption on October 1, 2014 (the first permissible date at a redemption price of 100%), all of the Bonds of 2004 scheduled to mature on and subsequent to October 1, 2020, in order to obtain substantial savings in interest costs. Net proceeds of \$8,941,276 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$9,007,506 of refunded debt. As a result, \$7,990,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2004 are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next thirteen years by \$655,956 and resulted in an economic gain of \$583,834. The outstanding balance of the defeased 2004 bonds was \$7,990,000 as of June 30, 2015.

Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2013 dated February 5, 2013 in the amount of \$1,215,000, were issued for the purpose of refunding through escrow a portion of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2005, dated August 1, 2005, scheduled to mature on and after August 1, 2016 (the "Bonds of 2005"), issued by the Corporation by providing for the payment of the interest on the Bonds of 2005 due and payable on and prior to August 1, 2015, and by calling for redemption on August 1, 2015 (the first permissible date at a redemption price of 100%), all of the Bonds of 2005 scheduled to mature on and subsequent to August 1, 2016, in order to obtain substantial savings in interest costs. Net proceeds of \$1,173,618 were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$1,372,220 of refunded debt. As a result, \$1,070,000 of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2005 are considered to be defeased and the liability has been removed from long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$67,695 and resulted in an economic gain of \$61,516. The outstanding balance of the defeased 2005 bonds was \$1,155,000 as of June 30, 2015.

Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2014 dated July 2, 2014, in the amount of \$4,155,000 were issued to finance the construction of a new single story, approximately 39,736 square foot, career and technology center.

Hopkins County School District Finance Corporation School Building Bond Anticipation Notes (BANS), Series 2014 dated July 2, 2014, in the amount of \$2,355,000 were issued in anticipation of a 2017 Bond issuance to finance the construction of a new single story, approximately 39,736 square foot, career and technology center.

##### **Participation Agreements**

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (KSFCC). The Commission was created by the Kentucky legislature for the purpose of assisting local school districts in meeting school construction needs. Receipts from the KSFCC are recorded as intergovernmental-state revenue in the Debt Service Fund. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues (See Note 12).

##### **Insurance Assessment**

The Kentucky School Boards Insurance Trust (KSBIT) has notified all past and present members that they will be assessed to make up for a growing deficit in the Workers' Compensation Self-Insurance and/or Property and Liability pools. The District recorded a liability of \$401,521. The District financed the Workers' Compensation liability portion through an interest free loan from KSBIT over 6 years after a 25% down payment. Annual payments are \$37,685.

**HOPKINS COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2015**

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

**Maturities**

The annual debt service requirements to maturity for long-term debt payable as of June 30, 2015 are as follows:

	Hopkins County Board of Education		School Facilities Construction Commission		Total	Total	Total
	Interest	Principal	Interest	Principal	Interest	Principal	Requirement
2015-16	\$ 918,459	\$ 1,973,692	\$ 394,644	\$ 926,308	\$ 1,313,103	\$ 2,900,000	\$ 4,213,103
2016-17	807,057	2,039,552	327,678	910,448	1,134,735	2,950,000	4,084,735
2017-18	746,892	2,109,169	294,145	3,155,831	1,041,037	5,265,000	6,306,037
2018-19	683,130	2,177,427	263,159	817,573	946,289	2,995,000	3,941,289
2019-20	932,044	2,390,063	242,129	624,937	1,174,173	3,015,000	4,189,173
2020-21	517,888	2,974,776	226,695	525,224	744,583	3,500,000	4,244,583
2021-22	451,667	2,556,599	213,511	538,401	665,178	3,095,000	3,760,178
2022-23	378,562	2,636,963	197,710	558,037	576,272	3,195,000	3,771,272
2023-24	294,906	2,726,942	180,275	568,058	475,181	3,295,000	3,770,181
2024-25	218,394	2,816,619	161,678	588,381	380,072	3,405,000	3,785,072
2025-26	162,402	2,040,784	142,180	614,216	304,582	2,655,000	2,959,582
2026-27	76,456	1,111,668	123,263	478,332	199,719	1,590,000	1,789,719
2027-28	30,022	352,471	107,510	402,529	137,532	755,000	892,532
2028-29	15,876	367,397	92,642	417,603	108,518	785,000	893,518
2029-30	1,118	11,771	75,712	453,229	76,830	465,000	541,830
2030-31	574	12,411	55,988	477,589	56,562	490,000	546,562
2031-32	-	-	35,200	250,000	35,200	250,000	285,200
2032-33	-	-	25,000	260,000	25,000	260,000	285,000
2033-34	-	-	14,300	275,000	14,300	275,000	289,300
2034-35	-	-	4,400	220,000	4,400	220,000	224,400
<b>TOTALS</b>	<b>\$ 6,235,447</b>	<b>\$ 28,298,304</b>	<b>\$ 3,177,819</b>	<b>\$ 13,061,696</b>	<b>\$ 9,413,266</b>	<b>\$ 41,360,000</b>	<b>\$ 50,773,266</b>

**HOPKINS COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2015**

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

**Maturities, continued**

During the year ended June 30, 2015, the following changes occurred in the long-term debt:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Governmental activities:					
Revenue bonds:					
Issue of 1996 (PES)	\$ 70,000	\$ -	\$ 35,000	\$ 35,000	\$ 35,000
Issue of 2003 (Energy)	200,000	-	200,000	-	-
Issue of 2004 (BSMS)	1,370,000	-	25,000	1,345,000	30,000
Issue of 2004 (QZAB)	500,000	-	-	500,000	-
Issue of 2005 (BSMS)	165,000	-	80,000	85,000	85,000
Issue of 2006 (PES)	1,120,000	-	70,000	1,050,000	70,000
Issue of 2007 (Refunding)	2,820,000	-	170,000	2,650,000	180,000
Issue of 2008 (Refunding)	585,000	-	190,000	395,000	195,000
Issue of 2009 (Energy)	4,135,000	-	215,000	3,920,000	225,000
Issue of 2009 (Refunding-var.)	1,495,000	-	265,000	1,230,000	270,000
Issue of 2011A (CTC)	8,560,000	-	220,000	8,340,000	235,000
Issue of 2011B (Refunding)	6,550,000	-	1,245,000	5,305,000	1,265,000
Issue of 2012 (Refunding-BSMS 2004)	8,930,000	-	110,000	8,820,000	115,000
Issue of 2013 (Refunding-BSMS 2005)	1,195,000	-	20,000	1,175,000	20,000
Issue of 2014 (HCCTCII)	-	4,155,000	-	4,155,000	175,000
Issue of 2014 BANS (HCCTCII)	-	2,355,000	-	2,355,000	-
Total bonds payable	<u>37,695,000</u>	<u>6,510,000</u>	<u>2,845,000</u>	<u>41,360,000</u>	<u>2,900,000</u>
Unamortized premium/discount	(406,916)	(29,891)	7,712	(444,519)	(40,495)
Net bonds payable	<u>37,288,084</u>	<u>6,480,109</u>	<u>2,852,712</u>	<u>40,915,481</u>	<u>2,859,505</u>
Compensated absences	1,238,470	430,933 (A)	310,399	1,359,004	365,830
Insurance assessment	311,638	-	113,054	198,584	-
CERS pension liability	11,499,407	892,300	1,244,022	11,147,685	-
	<u>\$ 50,337,599</u>	<u>\$ 7,803,342</u>	<u>\$ 4,520,187</u>	<u>\$ 53,620,754</u>	<u>\$ 3,225,335</u>
Business-type activities:					
CERS pension liability	1,774,593	137,700	191,978	1,720,315	-
Compensated absences	29,260	-	9,388	19,872	3,994
	<u>\$ 1,803,853</u>	<u>\$ 137,700</u>	<u>\$ 201,366</u>	<u>\$ 1,740,187</u>	<u>\$ 3,994</u>

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

**8. Retirement Plans**

**KTRS**

Plan description - Teaching-certified employees of the Hopkins County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. 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 is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

#### 8. Retirement Plans, continued

##### KTRS, continued

Benefits provided - For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Funding policy- Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

The Hopkins County School District's total payroll for the year was \$39,311,223. The payroll for employees covered under KTRS was \$29,835,818. For the year ended June 30, 2015, the Commonwealth contributed \$4,514,075 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2015, 2014 and 2013 were \$934,942, \$665,335, and \$536,186, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

##### CERS

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-696-8000.

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

#### 8. Retirement Plans, continued

##### CERS, continued

Plan members are required to contribute 5% (6% if hired after September, 2008) of their annual creditable compensation. The District is required to contribute at an actuarially determined rate. The current rate is 17.67% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2015, 2014 and 2013 were \$1,544,426, \$1,705,778, and \$1,786,539, respectively, equal to the required contributions for each year.

##### Defined Contribution Plans

The District makes available various 401(k) and 403(b) defined contribution pension plans for all regular full-time and part-time employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans, but retains authority to amend or terminate these plans. During the year ended June 30, 2015, employees of the District contributed \$245,341 to 401(k) plans and \$197,308 to 403(b) plans.

#### 9. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements. The District does not contribute to these plans. Employees of the District contributed \$244,931 to these plans during the year ended June 30, 2015.

#### 10. Post Employment Health Care Benefits

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. The premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 2.25% of members' salary for the 2014-2015 fiscal year. The District's contribution to the Retiree Medical Insurance Fund for the years ending June 30, 2015, 2014 and 2013 were \$629,713, \$412,400 and \$274,351, respectively.

**HOPKINS COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING JUNE 30, 2015**

**11. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the District did not report a liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Commonwealth's proportionate share of the CERS net pension liability associated with the District	\$ 12,868,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>191,555,888</u>
	<u>\$ 204,423,888</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability (NPL) for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.396633% percent (CERS ONLY, because we aren't recognizing a NPL for KTRS).

For the year ended June 30, 2015, the District recognized pension expense of \$1,030,000 related to CERS and \$4,514,075 related to KTRS. The District also recognized revenue of \$4,514,075 (KTRS Schedule A) for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,436,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>1,609,750</u>	<u>-</u>
<b>Total</b>	<u><b>\$ 1,609,750</b></u>	<u><b>\$ 1,436,000</b></u>

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

#### 11. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

\$1,609,750 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows: (\$1,436,000/5)

<u>Year ended June 30:</u>	
2016	\$287,200
2017	\$287,200
2018	\$287,200
2019	\$287,200
2020	\$287,200

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

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These

HOPKINS COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2015

11. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	16,934,000	12,868,000	9,276,000
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-



# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

#### **11. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued**

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

#### **12. Contingencies**

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

As shown in Note 7, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series 1996(100%), 2005(100%), 2006(100%), 2008(59%), 2009Ref(100%), 2011A(36%), 2005(100%), 2014 (100%), and 2014 BANS (100%). In the unlikely event the KSFCC defaults on their portion of the bond series, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2015, was \$16,239,515.

Per an annexation agreement dated June 16, 1998, the Dawson Springs Independent School District (DSISD) agreed to be responsible for the debt service on certain outstanding bonds through 2019. DSISD paid \$11,391 during the year to the District and the balance of the obligation was \$44,349 as of June 30, 2015. Should the DSISD not fulfill its obligation, the District is responsible for the full amount of the debt service. It is the District's policy to recognize the amounts received each year as income from other local governments.

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

#### **13. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. The District purchases unemployment insurance through the Kentucky School Boards.

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

**HOPKINS COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING JUNE 30, 2015**

**14. Deficit Operating/Fund Balances**

There are funds of the District that currently have a deficit net position because of the implementation of GASB 68 and another fund had operations that resulted in a current year deficit of revenues and other sources under expenditures and other uses resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

	Operations	Net Position
Construction Fund	\$ 3,852,014	
Food Service Fund		\$ 594,440
Child Care Fund		\$ 107,066

**15. 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).

**16. Interfund Balances and Transfers**

The were no interfund balances as of June 30, 2015.

The following transfers were made during the year ended June 30, 2015:

From Fund	To Fund	Purpose	Amount
<b>Nonmajor Governmental Funds:</b>			
Capital Projects (FSPK)	Debt Service	Bond payments	\$ 2,352,407
Capital Projects (SEEK)	Debt Service	Bond payments	628,146
General Fund	Debt Service	Bond payments	49,390
General Fund	Construction Fund	Construction Payment	1,423,902
General Fund	Construction Fund	Construction Payments	762,449
Total Nonmajor Governmental funds			5,216,294
General Fund	Special Revenue	Matching (KETS)	150,757
Construction Fund	General Fund	Reimburse Construction Pmt	4,353,457
Debt Service	Construction Fund	Bond proceeds for Construction	6,394,645
			\$ 16,115,153

**HOPKINS COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING JUNE 30, 2015**

**17. Commitments/Impairment/Litigation (Construction Projects)**

The District had the following outstanding construction projects, as evidenced by contracts, purchase orders or BG-1 forms, as applicable, as of June 30, 2015.

Project	Total Commitment	Incurred To Date	Commitment Remaining
Career and Technical Center-New Site (BG 14-103)	\$ 11,629,677	\$ 8,119,813	\$ 3,509,864
MNHHS-Addition-Softball Field Restrooms (BG 14-131)	24,629	24,629	-
MNHHS-Baseball Building (BG 14-242)	218,748	218,748	-
Total	<u>\$ 11,873,054</u>	<u>\$ 8,363,190</u>	<u>\$ 3,509,864</u>

The District is currently the plaintiff in litigation regarding the original Center site. A probable and reasonable estimate of the outcome of the litigation cannot be determined at this time. The commitments were transferred to a new BG-1 for construction of a new Center at a different location.

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

**18. On-Behalf Payments**

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2015. The amounts are included in the General Fund and Debt Service Fund, as "Intergovernmental-State" revenues and in the Food Service Fund and Child Care Fund as "State grants." These amounts are not budgeted. In the General Fund, the retirement and technology payments are recorded as additional instruction expense and the health insurance, life insurance, administration fee and health reimbursement account payments are allocated to the various expense functions based on a ratio of employees. In the Debt Service Fund, the payments are recorded as principal and interest expenditures. In the Food Services Fund and Child Care Fund, all of the payments are recorded as additional employee benefits.

Kentucky Teachers Retirement System	\$ 4,514,075
Health insurance, life insurance, administrative fee, health reimbursement account, net of federal reimbursements	7,104,470
Technology	96,694
Debt Service	1,022,578
Total On-Behalf Payments	<u>\$ 12,737,817</u>
Reported in:	
General Fund	\$ 11,276,948
Debt Service Fund	1,022,578
Food Service Fund	413,506
Child Care Fund	24,785
	<u>\$ 12,737,817</u>

# HOPKINS COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDING JUNE 30, 2015

#### **19. Change in Accounting Principle and Related Changes to Certain Beginning Balances**

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application.

For the Governmental Funds, the adjustment resulted in a \$11,499,407 reduction in beginning net position on the Statement of Activities and an increase of \$1,397,400 of deferred outflows of resources – District contributions subsequent to the measurement date and an increase of \$1,244,022 in deferred inflows of resources - the net difference between projected and actual earnings on pension plan investments.

For the Proprietary Funds, the adjustment resulted in a \$1,630,765 and \$143,828 decrease in beginning net position on the Statement of Revenues, Expenses and Changes in net position for the Food Service and Child Care Funds, respectively and an increase of \$199,876 and \$12,474 of deferred outflows of resources respectively, and an increase of \$176,418 and \$15,560 in deferred inflows of resources, respectively.

#### **20. Subsequent Events**

On October 19, 2015, the Hopkins County School District Finance Corporation approved a resolution for the issuance of \$960,000 of Hopkins County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2015 for the refunding of the Hopkins County School District Finance Corporation School Building Revenue Bonds, Series 2006, dated December 14, 2006, maturing on or after November 1, 2017 and approved the plan of paying and financing the cost of the refunding and redemption. The bond refunding was postponed indefinitely due to rates.

Management has evaluated subsequent events through November 6, 2015, the date on which the financial statements were available to be issued.

**HOPKINS COUNTY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
From local sources				
Taxes				
Property	\$12,060,000	\$12,060,000	\$12,562,986	\$502,986
Motor vehicle	1,400,000	1,400,000	1,745,414	345,414
Unmined mineral	200,000	200,000	298,106	98,106
Other	75,000	75,000	115,518	40,518
Earnings on investments	35,000	35,000	29,696	(5,304)
Student activities	0	0	328	328
Other local revenues	5,500	5,500	116,976	111,476
Intergovernmental - Local	11,000	11,000	203,299	192,299
Intergovernmental - State	28,093,993	28,093,993	28,050,360	(43,633)
Intergovernmental - Direct Federal	100,000	100,000	104,328	4,328
<b>Total revenues</b>	<u>41,980,493</u>	<u>41,980,493</u>	<u>43,227,011</u>	<u>1,246,518</u>
<b>Expenditures:</b>				
Current:				
Instruction	26,514,938	26,468,963	26,462,401	6,562
Support Services:				
Student	1,464,030	1,460,908	1,591,118	(130,210)
Instruction staff	1,356,999	1,374,086	1,300,862	73,224
District administrative	1,573,340	1,240,840	1,337,582	(96,742)
School administrative	2,953,324	2,923,724	2,904,651	19,073
Business	1,453,864	1,802,864	1,923,279	(120,415)
Plant operation and maintenance	5,532,212	5,528,212	5,606,713	(78,501)
Student transportation	3,008,818	3,008,818	2,819,453	189,365
Other instructional	58,021	107,131	10,167	96,964
Community service activities				-
Debt service:				
Principal				0
Interest				0
Issuance costs				-
<b>Total expenditures</b>	<u>43,915,547</u>	<u>43,915,547</u>	<u>43,956,226</u>	<u>(40,679)</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(1,935,054)</u>	<u>(1,935,054)</u>	<u>(729,215)</u>	<u>1,205,839</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of fixed assets			16,582	16,582
Operating transfers in			4,353,459	(4,353,459)
Operating transfers out	(150,000)	(150,000)	(2,386,497)	(2,236,497)
Contingency	(2,500,000)	(2,500,000)	0	2,500,000
<b>Total other financing sources (uses)</b>	<u>(2,650,000)</u>	<u>(2,650,000)</u>	<u>1,983,544</u>	<u>4,633,544</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(4,585,054)</u>	<u>(4,585,054)</u>	<u>1,254,329</u>	<u>5,839,383</u>
<b>Fund balance, July 1, 2014</b>	<u>4,585,054</u>	<u>4,585,054</u>	<u>4,346,037</u>	<u>(239,017)</u>
<b>Fund balance, June 30, 2015</b>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$5,600,366</u>	<u>\$5,600,366</u>

**HOPKINS COUNTY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
From local sources:				
Earnings on investments	\$20,459		\$1,355	\$1,355
Student activities		\$ 20,000	31,467	11,467
Other		37,363	34,606	(2,758)
Intergovernmental - State	2,286,470	2,288,281	2,295,011	6,730
Intergovernmental - Indirect federal	4,056,219	4,496,924	4,777,224	280,300
Intergovernmental - Direct federal		0	134,443	134,443
<b>Total revenues</b>	<u>6,363,148</u>	<u>6,842,569</u>	<u>7,274,106</u>	<u>431,538</u>
<b>Expenditures:</b>				
Current:				
Instruction	4,543,503	4,982,703	5,535,665	(552,962)
Support services:				
Student	313,686	324,589	200,892	123,697
Instruction staff	977,226	981,991	977,695	4,296
District administrative				-
School administrative				-
Business	4,819	4,819	3,503	1,315
Plant operation and maintenance	54,366	54,366	67,332	(12,966)
Student transportation	4,325	4,325		4,325
Central office				-
Other instructional		3,234	3,234	-
Community services	615,223	636,542	636,542	-
Capital outlay:				
Facilities acquisition and construction				-
<b>Total expenditures</b>	<u>6,513,148</u>	<u>6,992,569</u>	<u>7,424,863</u>	<u>(432,295)</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,757)</u>	<u>(757)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of assets				-
Operating transfers in	150,000	150,000	150,757	757
Operating transfers out				0
<b>Total other financing sources (uses)</b>	<u>150,000</u>	<u>150,000</u>	<u>150,757</u>	<u>757</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	0	0	(0)	(0)
<b>Fund balance, July 1, 2014</b>	-	69,912	0	69,912
<b>Fund balance, June 30, 2015</b>	<u>\$ 0</u>	<u>\$ 69,912</u>	<u>\$ (0)</u>	<u>\$ 69,912</u>

HOPKINS COUNTY SCHOOL DISTRICT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS

FOR THE YEAR ENDED JUNE 30, 2015

**Budgetary Process**

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. All annual appropriations lapse at fiscal year-end.

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

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

**Reconciliation between the Budgetary Basis of Accounting and GAAP**

A basis difference exists in the General Fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments, primarily retirement and employee benefits. The Kentucky Department of Education encourages Kentucky school districts to include on-behalf payments in the budget process but the District did not budget on-behalf payments. For the year ended June 30, 2015, line item differences are as follows:

<u>General Fund:</u>	<u>Budget Basis</u>	<u>GAAP Basis</u>	<u>Difference</u>
Revenues:			
Intergovernmental-state	\$ 28,050,360	\$ 39,327,308	\$ 11,276,948
Expenditures:			
Instruction	26,462,401	34,209,056	7,746,655
Support services:			
Student	1,591,118	1,965,434	374,316
Instructional staff	1,300,862	1,657,324	356,462
District administration	1,337,582	1,470,384	132,802
School administration	2,904,651	3,747,065	842,414
Business	1,923,279	2,272,447	349,168
Plant operation and maintenance	5,606,713	6,369,933	763,220
Student transportation	2,819,453	3,531,364	711,911

Special Revenue Fund:

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

**HOPKINS COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and cash equivalents				\$ 281,504	\$ 281,504
Accounts receivable:					
Local					
Accrued interest receivable					
Prepaid expenses			\$ 107,900		107,900
Restricted investments			388,079		388,079
Restricted cash	\$ -	\$ -	-		-
<b>Total assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 495,979</u>	<u>\$ 281,504</u>	<u>\$ 777,483</u>
<b>Liabilities</b>					
Accounts payable				\$ 200	\$ 200
Due to other funds			-		-
Non current Bond Obligation					
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>200</u>
<b>Fund Balances</b>					
Nonspendable:					
Prepaid expenses			\$ 107,900		\$ 107,900
Restricted for:					
Capital projects	\$ -	\$ -			-
Debt service			388,079		388,079
Committed:					
District Activity Funds				281,304	281,304
<b>Total fund balances</b>	<u>-</u>	<u>-</u>	<u>495,979</u>	<u>281,304</u>	<u>777,283</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 495,979</u>	<u>\$ 281,504</u>	<u>\$ 777,483</u>



**HOPKINS COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes:					
Property	\$1,319,867				\$1,319,867
Earnings on investments			\$17,167		17,167
Intergovernmental - State	1,032,540	\$ 628,146	1,022,577		2,683,263
Other Student Income District Activity Fund				\$ 422,491.00	422,491
<b>Total revenues</b>	<u>2,352,407</u>	<u>628,146</u>	<u>1,039,744</u>	<u>422,491</u>	<u>4,442,788</u>
<b>Expenditures:</b>					
Capital outlay:					
Facilities acquisition and construction					
Debt Service:					
Principal			2,844,170		2,844,170
Interest			1,224,251		1,224,251
Bond issuance costs			65,656		65,656
District Activity:					
Instruction				114,907	114,907
Support Services				26,280	26,280
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>4,134,077</u>	<u>141,187</u>	<u>4,275,264</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>2,352,407</u>	<u>628,146</u>	<u>(3,094,333)</u>	<u>281,304</u>	<u>167,524</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from bonds issued			4,155,000		4,155,000
Proceeds from bond anticipation notes issued			2,355,000		2,355,000
Premium on bonds issued			29,891		29,891
Discount on bonds issued			(7,960)		(7,960)
Transfers in			3,029,943		3,029,943
Transfers out	(2,352,407)	(628,146)	(6,394,645)		(9,375,198)
<b>Total other financing sources (uses)</b>	<u>(2,352,407)</u>	<u>(628,146)</u>	<u>3,167,229</u>		<u>186,676</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>-</u>	<u>72,896</u>	<u>281,304</u>	<u>354,200</u>
<b>Fund balance, July 1, 2014</b>			<u>423,083</u>	<u>0</u>	<u>423,083</u>
<b>Fund balance, June 30, 2015</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$495,979</u>	<u>\$281,304</u>	<u>\$777,283</u>

**HOPKINS COUNTY SCHOOL DISTRICT  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
ALL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>School</u>	<u>Cash Balances July 1, 2014</u>	<u>Receipts</u>	<u>Disburse- ments</u>	<u>Cash Balances June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Fund Balances June 30, 2015</u>
Hopkins County Central High	\$244,117	\$514,279	\$617,900	\$140,496	\$0	\$6,162	\$134,334
Madisonville North Hopkins High	200,310	463,123	482,327	181,106	0	333	180,773
	<u>444,427</u>	<u>977,402</u>	<u>1,100,227</u>	<u>321,602</u>	<u>0</u>	<u>6,495</u>	<u>315,107</u>
ADTP	209	154	363	(0)			(0)
Academy	3,973	503	0	4,476			4,476
Browning Springs Middle	16,083	58,484	55,873	18,694			18,694
Central Office - various*	4,096	1,280	1,624	3,752			3,752
Earlington Elementary	11,306	22,723	26,190	7,840			7,840
Grapevine Elementary	8,749	29,853	33,672	4,930			4,930
Hanson Elementary	31,165	45,444	53,957	22,652			22,652
James Madison Middle	65,583	107,084	116,751	55,917			55,917
Jesse Stuart Elementary	10,213	42,272	40,881	11,604			11,604
Pride Elementary	14,435	38,886	45,300	8,021			8,021
Southside Elementary	28,285	43,386	61,150	10,521			10,521
South Hopkins Middle	55,383	135,971	144,584	46,770			46,770
West Broadway Elementary	22,738	40,502	46,771	16,469		466	16,003
West Hopkins	20,114	49,466	49,289	20,292		694	19,598
	<u>\$736,760</u>	<u>\$1,593,411</u>	<u>\$1,776,632</u>	<u>\$553,539</u>	<u>\$0</u>	<u>\$7,655</u>	<u>\$545,884</u>

\* Includes transportation and maintenance funds.

HOPKINS COUNTY SCHOOL DISTRICT  
 SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
 HOPKINS COUNTY CENTRAL HIGH SCHOOL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balances July 1, 2014		Disburse- ments		Transfers	Cash Balances June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Fund Balances June 30, 2015
	Receipts								
Academic Team	\$236	\$662	\$898			\$0			\$0
Air Force ROTC	14	129	483	\$339		0			0
AP Test	8,194	13,485	13,780			7,899			7,899
Archery Club	2,931	18,959	16,583	519		5,826	\$732		5,094
Art	859	0	0	(859)		0			0
Art Club	390	240		0		630			630
Athletic Dept.	11,600	83,080	59,994	(19,574)		15,111	1,650		13,461
Band	217	9,592	7,816	974		2,966			2,966
Baseball	0	0	0	288		288			288
Bass Fishing	0	440	515	75		0			0
Beta Club	1,355	650	1,346	0		659			659
Bookstore	1,678	7,499	6,013	(190)		2,974			2,974
Boys Basketball	529	7,312	7,848	108		101			101
Business Dept.	4	0	0	(4)		0			0
Change	0	1,800	2,300	500		0			0
Cheerleaders	2,627	17,967	13,465	1,103		8,231	1,874		6,357
Chorus	3,224	4,310	4,261	(1,095)		2,178			2,178
Chorus Trip	0	76,536	77,986	1,450		0			0
Concessions	11,003	23,706	38,090	4,871		1,491			1,491
Cross Country	1,186	2,053	3,088	103		253			253
Custodial Acct	256	678	480	(100)		354			354
Dance Squad	217	10,019	11,404	1,425		257			257
DAF	0	4,829	149,121	149,038		4,746			4,746
Decals	0			0		0			0
Drama	234		0	0		234			234
Driver education	16,587	3,300	120	(17,887)		2,080			2,080
Embroidery	176	0	0	0		176			176
Employee of the Month	802	0	0			802			802
Exceptional Entre.	0			0		0			0
Extended School	3,946	0		(3,946)		0			0
Fan Club	141					141			141
F.B.L.A.	1,550	316	214			1,652	448		1,205
F.C.A.	95	60	25			130			130
F.F.A.	802	25,041	24,420	100		1,524			1,524
F.C.C.L.A.	198	719	357			560			560
Football	3,401	2,340	3,813	4,462		6,390			6,390
(4)Four H Club	702	1,040	712			1,030			1,030
Freshman Class	0	1,882	833	0		1,050			1,050
Girls Basketball	353	6,620	6,641	621		953			953
Girls Volleyball	1,819		1,059	385		1,145			1,145
Golf Girls	235	1,734	0	38		2,007			2,007
Golf Boys	5,963	1,740	2,052	58		5,708			5,708
Greenhouse	2,465	8,330	8,349	288		2,734	563		2,170
Guidance Testing	748	838	407			1,179			1,179
Hall of Fame	283	100	49	0		334			334
Holiday BB Tourn.	0			0		0			0
Home Ec	1,117	3,300	3,057	(595)		764			764
HOSA	568	12,352	11,253	(504)		1,163			1,163
Instructional	3,705	5,111	4,988	(3,774)		54			54
Kenny Harris	0		0	0		0			0
MCLC	35					35			35
Media Center	121	38	0	(134)		26			26
Miscellaneous	8,835	396	0	(9,177)		54			54
National Honor Society	1,567	5,615	6,423	(25)		734			734
Olympic Field Day	5,107	5,009	4,866	0		5,250			5,250
Outdoorsmen's Club	238	75	200			113			113
PBIS	1,199	1,329	0			2,529			2,529
Pep Club	0	3,711	3,421	(288)		2			2
Project Grad.	5,947	5,875	8,009	1,050		4,863		330	4,533
ROTC Cadets	6,169	28,336	30,628	(314)		3,563			3,563
Science & Math Club	2,313	480	292	0		2,501			2,501
Second Region AD	0		0			0			0
Sophomore Class	1,215	1,133				2,348			2,348
Senior Trip	1	37,248	46,087	8,839		0			0
Senior Class	2,829	7,608	888	(8,814)		734			734
Shout Outs	5					5			5
Soccer Boys	608	0	297	365		677			677
Soccer Girls	1,541			452		1,993			1,993
Softball	1,319	500	539	87		1,367			1,367
Junior Class	2,199	8,778	6,734	(1,050)		3,193			3,193
South Hopkins	0	0	0			0			0
Spanish Club	316	1,042	462	0		896			896
STLP	11	0	0			11			11
Storm Hoops Banner	100					100			100
Student Vending	6,900	1,798	2,484			6,213			6,213
Swim	878	1,920	2,404	288		683			683
Teacher Vending	2,829	4,460	3,759	0		3,530			3,530
Tennis	1,181	495	620	87		1,143			1,143
Textbook Rental	88,738	20,999	0	(109,738)		0			0
Track	1,239	920	452	103		1,809		565	1,244
TSA	91	180	0	0		271			271
Yearbook	2,228	13,565	10,112			5,681			5,681
YSC TOP	228			(121)		107			107
Youth Service Center	5,721	4,000	5,404	(25)		4,292			4,292
<b>TOTAL</b>	<b>\$244,117</b>	<b>\$514,279</b>	<b>\$617,900</b>	<b>\$0</b>		<b>\$140,496</b>	<b>\$0</b>	<b>\$6,162</b>	<b>\$134,334</b>

HOPKINS COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
MADISONVILLE NORTH HOPKINS HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balances July 1, 2014	Receipts	Disburse- ments	Transfers	Cash Balances June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Fund Balances June 30, 2015
Academic Team	\$0	\$25	\$0	(\$25)	\$0			\$0
Administrative	9,611	670	409	(\$9,872)	0			0
Adv Leadership	41				41			41
Agri Consumables	614			(614)	0			0
Annual	4,191	24,230	14,915	(44)	13,463			13,463
Archery	192	7,284	7,808	1,200	868			868
Art Club	62				62			62
Art Department	452	260	464	(248)	(0)			(0)
Athletic Dept.	1,180	73,429	65,069	\$10,974	20,514			20,514
Athletic Extras	8,186	14,974	7,976	(14,774)	410			410
Band	2,083	53,936	51,535	125	4,609			4,609
Baseball Program	52	18,252	17,071		1,233			1,233
Basketball Boys	251		195	(25)	31			31
Bass Fishing	-	4,055	1,898		2,157			2,157
Beta Club	195	1,938	1,565		568			568
Beta Delta	2,117	572	344		2,345			2,345
Boys Cross Country	2,756	1,594	3,942	1,345	1,752			1,752
Boys Track	1,061	130	905		286			286
Brag Tags	371	557	423	400	905		108	797
Business Dept.	964			(964)	(0)			(0)
Cheerleaders	313	8,295	8,400		208			208
Chemistry Club	120				120			120
Chess Club	111				111			111
Chem Safety Equip.	661			(661)	0			0
Coke Machine	2,786	2,306	2,590		2,501			2,501
Cross Country	1,931	2,632	1,858	(1,345)	1,360			1,360
Culinary Club	-	803	268	128	664			664
Culinary Skills	1,728	535	85	(2,057)	120			120
DAF	-	2,729	120,227	117,552	54			54
Dance Team	1,016	1,440	2,488	1,144	1,111			1,111
Distributive Education	1,634				1,634			1,634
Donan Scholarship	500				500			500
Drafting/North Eng	24				24			24
Drama	4,001	6,419	4,467		5,953			5,953
Dream Team	852	0	437		415			415
Drivers Training	26,233	8,125	7,075	(27,283)	0			0
English Dept	33				33			33
Faculty Fund	91	2,213	1,808		496		67	429
Fellowship of Christian Ath.	359				359			359
F B L A	1	5,298	3,373		1,926			1,926
F F A	958	23,775	23,209	(31)	1,494			1,494
F F A Greenhouse	4,189	4,625	3,022		5,792			5,792
F H A	350	1,002	817		535			535
Food Products	321	192	307		206			206
Football Fund	898	561	1,116	(38)	306			306
Girls Basketball	2,051	1,250	612	340	3,029			3,029
Girls Softball	245	3,050	3,293		2			2
Girls Track	527				527			527
Glee Club	807	8,645	9,135	(287)	30			30
Golf Program	2,173	6,985	6,510		2,648			2,648
Guidance	8,923	25,074	833	(17)	33,147			33,147
Health Occup	661	2,911	3,161	(104)	307			307
Home Economics Dept	24				24			24
Houg/Sarles	3,500				3,500			3,500
Industrial Arts	526	4,759	4,719	(557)	9			9
Incentive Program	144	15	0	(144)	15			15
Key Club	1,033	7,311	7,911	1,200	1,633			1,633
Letterman Association	1,273	1,300			2,573			2,573
Library	329	156		(449)	36			36
Locker Fund	2,243	6,135	770	(7,582)	25			25
Lost Book	1,391	186	0	(1,391)	186			186
Math Department	250				250			250
Modern Foreign Language	657		485		172			172
Multi Culture Club	187				187			187
Not in my School	87				87			87
NOW Account	315	(17)			298			298
NJRROTC	5,168	13,148	13,798		4,518			4,518
PBIS	5,549	2,377	7,230		696			696
PE	1,462	246		(1,622)	88			88
PEP Club	356				356			356
Project Graduation	4,200	15,123	17,022		2,301		158	2,143
Science Club	186				186			186
2nd Region Ad	285	1,050	1,313		22			22
2nd Region Coaches Assc.	-	805		(412)	393			393
Seniors 2015	5,028	1,145	3,477		2,696			2,696
Seniors 2013	-				0			0
Seniors 2014	-				0			0
Seniors 2016	3,889	17,293	14,718		6,464			6,464
Seniors 2017	2,508	2,183			4,691			4,691
Seniors 2018	-	2,054	684		1,370			1,370
Senior Trips	2,323				2,323			2,323
Soccer Girls	292	3,350	3,414		228			228
Soccer Boys	1,398	4,341	3,911		1,828			1,828
Social Studies	1,519			(1,519)	0			0
Sports Marketing	1,716				1,716			1,716
Spanish Club	664				564			564
SSF	957	370	428	(80)	819			819
Student Emergency Fund	414				414			414
Student Y	295				295			295
Spanish Text Book	131			(131)	0			0
Student Textbook	22,835	38,646	2,080	(57,365)	2,036			2,036
Student Textbooks Science	3,034	430	0	(3,464)	0			0
Student Government	13				13			13
Summer School	4,264	1,060	0	(500)	4,824			4,824
Swimming Scholarship	2,093	3,348	4,487		954			954
T.A.P.	59				59			59
Tennis	2				2			2
Textbooks DE store	1,008	1,685	694		1,979			1,979
Toyota Athletic	8,442	150	1,248	(700)	6,844			6,844
Triple M	386	796		(383)	799			799
Volleyball	347	9,147	9,631	159	22			22
Young Educators	20				20			20
Youth Service Center	8,639	3,778	4,597	120	7,940			7,940
TOTAL	\$200,310	463,123	462,327	(\$0)	\$181,106	\$0	\$333	\$180,773

HOPKINS COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005-14 7760005-15	\$ 138,366 <u>435,114</u> <u>573,480</u>
NATIONAL SCHOOL LUNCH PROGRAM CASH ASSISTANCE	10.555	7750002-14 7750002-15 Fund 51	399,680 1,425,245 <u>236,800</u> <u>2,061,725</u>
NONCASH ASSISTANCE - COMMODITIES (Note C)			
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7690024-14 7740023-14	1,220 <u>11,792</u> <u>13,012</u>
TOTAL CHILD NUTRITION CLUSTER			<u>2,648,217</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>2,648,217</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
GRANTS TO LOCAL EDUCATION AGENCIES	84.010	3100002-13 3100002-14 3100202-13	375,402 1,500,256 4,357 <u>1,880,015</u>
TOTAL TITLE I CLUSTER			<u>1,880,015</u>
TITLE I SCHOOL IMPROVEMENT	84.377	3100302-13	<u>254,253</u>
TITLE I PART D PREVENTION & INTERVENTION FOR CHILDREN & YOUTH WHO ARE NEGLECTED, DELINQUENT OR AT RISK	84.013	PROJ 313A PROJ 313AT	14,500 <u>1,702</u> <u>16,202</u>
MIGRANT EDUCATION-STATE GRANT PROGRAM	84.011	PROJ 3114 PROJ 311A	6,062 <u>23,489</u> <u>29,551</u>
SPECIAL EDUCATION CLUSTER:			
GRANTS TO STATES (IDEA, PART B)	84.027	3810002-12 3810002-13	477,128 <u>1,323,004</u> <u>1,800,132</u>
PRESCHOOL GRANTS (IDEA PRESCHOOL)	84.173	3800002-13	<u>84,463</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>1,884,595</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002-13 3230002-14	75,427 <u>322,863</u> <u>398,290</u>

**HOPKINS COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued  
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF EDUCATION, CONTINUED</u>			
VOCATIONAL EDUCATION BASIC GRANTS TO STATES	84.048	3710002-13 3710002-14	3,206 <u>77,094</u> <u>80,300</u>
TITLE VI RURAL AND LOW INCOME	84.358	3140002-13 3140002-14	75,888 <u>118,985</u> <u>194,873</u>
TITLE III, PART A, SUPPLEMENTARY INSTRUCTIONAL SUPPORT FOR ENGLISH LANGUAGE LEARNERS	84.013A	PROJECT 345A	<u>6,424</u> <u>6,424</u>
RACE TO THE TOP	84.413	3960002-11	<u>32,721</u>
PASSED THROUGH THE STATE DEPARTMENT OF HUMAN RESOURCES AND THE KENTUCKY EDUCATIONAL COLLABORATIVE FOR STATE AGENCY CHILDREN:			
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>4,777,224</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
MNHHS ROTC HCCHS ROTC	1010-15	PROJ 504A PROJ 6044	62,180 <u>72,263</u>
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			<u>134,443</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 7,559,884</u>

**Note A: Basis of Presentation:**

This schedule of expenditures of federal awards includes the federal grant activity of the Hopkins County School District under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the Hopkins County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hopkins County School District.

**Note B: Summary of Significant Accounting Policies:**

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

**Note C: Commodities:**

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

**Note D: Medicaid Reimbursements:**

Although reported in the financial statements as direct federal revenue, medicaid reimbursements (\$104,328) are not considered expenditures of federal awards for the purposes of this schedule.

**HOPKINS COUNTY SCHOOL DISTRICT  
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL  
June 30, 2015**

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

Administrative Personnel

Linda Q. Zellich - Superintendent

Deandra Ashby – Assistant Superintendent

Shari Winstead – Assistant Superintendent

April Devine – Director of Assessment

Tommy Burrough- Director of Facilities

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

Michael Dodridge – Director of Food Services

Charles Gant – Director of Pupil Personnel

Martin Cline – Director of Secondary Curriculum and District Assessment

Jennifer Luttrell – Director of Elementary Curriculum and Title I

Tonia Griffey – Director of Special Education and Early Childhood

Marci Cox – Director of Pupil Transportation



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2014-2015 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hopkins County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hopkins County Board of Education's basic financial statements and have issued our report thereon dated November 6, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. (B2015-001)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hopkins County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the State Committee for School District Audits' Fiscal Year 2014-2015 Financial Audit Contract.

We noted certain matters that we have reported to management of the Hopkins County School District in a separate letter dated November 6, 2015.



### **Hopkins County School District's Response to Findings**

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

### **Purpose of this Report**

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

Alford, Nance & Jones, LLP  
November 6, 2015



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

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

Report on Compliance for Each Major Federal Program

We have audited Hopkins County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hopkins County School District's major federal programs for the year ended June 30, 2015. Hopkins County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hopkins County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2014-2015 Financial Audit Contract. Those standards, requirements, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hopkins County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Hopkins County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

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

Alford, Nance & Jones, LLP  
November 6, 2015

**HOPKINS COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**A. Summary of Audit Results**

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

Child Nutrition Cluster:	
-School Breakfast Program	10.553
-National School Lunch Program	10.555
-Summer Food Service Program	10.559
Title 1 School Improvement	84.377
Special Education Cluster:	
-Grants to States (IDEA, Part B)	84.027
-Preschool Grants (IDEA Preschool)	84.173
Title VI Rural & Low Income	84.358
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hopkins County School District was determined to be a low risk auditee.

**HOPKINS COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**B. Findings-Financial Statements Audit**

Control Deficiency

B2015-001 Significant Deficiency – Purchasing

*Finding:* There were several instances where purchase orders were not utilized and prepared properly, including credit card purchases made at the central office.

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

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

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

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

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

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

None reported

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

None reported



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

In planning and performing our audit of the financial statements of the Hopkins County School District for the year ended June 30, 2015 we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 6, 2015, contains our report on significant deficiencies and material weaknesses, if any, in the District's internal controls structure. This letter does not affect our report dated November 6, 2015 on the financial statements of the Hopkins County School District.

We appreciate the opportunity to bring these comments to your attention. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Alford, Nance & Jones, LLP  
November 6, 2015

**HOPKINS COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**CURRENT YEAR MANAGEMENT LETTER POINTS**

**Purchasing (Activity Funds)**

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

*Criteria:* The "Red Book" and KDOE guidelines.

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

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

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

**Required Forms/Procedures**

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

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

*Cause and Effect:*

FORMS

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

PROCEDURES

Activity fund ending the year in a deficit. (PES negative balance at year end- teacher vending account)  
More than one instance noted where checks contained only one signature. (MNHHS)  
Bank statements not signed by director. (Central office maintenance and transportation)  
Deposit tickets were not initialed (Central office maintenance and transportation, ADT, SHMS, MNHHS, HCCHS, JSES)

**HOPKINS COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2015**

**CURRENT YEAR MANAGEMENT LETTER POINTS, continued**

**Required Forms/Procedures, continued**

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

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

**Receipts**

*Finding:* We noted instances where teachers/sponsors were not turning in receipts daily to the finance secretaries that were collected from the students. (EES, GES, JSES, MNHHS, HCCHS)

*Criteria:* The "Redbook" and KDOE guidelines.

*Cause and Effect:* Lack of enforcement in requiring compliance.

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

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

**Booster Clubs**

*Finding:* We noted instances of noncompliance with Booster Club reports. (MNHHS, JSES, SHMS)

*Criteria:* The KDOE "Red Book" requires Booster Clubs to submit the names of club officers and a budget to the principal at the beginning of the school year. In addition, an annual financial report shall be submitted to the principal by June 30 reporting receipts from admissions, fund raisers, dues, concession sales, and other categories; expenditures by payee, and beginning and ending balances.

*Cause and Effect:* Lack of effort in requiring compliance.

*Recommendation:* We recommend the principals increase their efforts in obtaining the required information from Booster Clubs, PTO's and PTA's.

*Response:* The schools will be again directed to comply with the "Red Book" as it relates to obtaining required information from booster clubs.

**Central Office Activity Funds**

*Finding:* The central office activity funds (maintenance and transportation vending) had instances of noncompliance with required KDOE "Redbook" guidelines.

*Criteria:* The "Red Book"

*Cause and Effect:* Lack of oversight and effort in requiring compliance.

*Recommendation:* We recommend these accounts, due to lack of compliance, be closed.



**HOPKINS COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS, CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**CURRENT YEAR MANAGEMENT LETTER POINTS, continued**

**Central Office Activity Funds, continued**

*Response:* We will direct the custodians of each account to close the account or maintain according to Redbook guidelines.

**Construction Projects Accounting**

*Finding:* We noted projects that had been completed but for which BG-4 and BG-5 forms had not been submitted (MNHHS Softball Restroom). We also noted instances where project costs exceeded or were less than projected costs on initial BG-1 forms but no revised BG-1 form had been submitted (MNHHS Baseball Building and Softball Restroom).

*Criteria:* Completed projects require the submission of a BG-4 and BG-5 to the State. BG-1 forms require revision if project costs change.

*Cause and Effect:* Lack of internal controls.

*Recommendation:* We recommend form BG-4 and BG-5 be prepared and submitted to the State upon project completion. We further recommend that construction projects be closely monitored and BG-1 forms be revised as needed when project costs change. There was a general lack of organization and documentation to the construction projects files which needs to be addressed.

*Response:* KDE has advised the local Maintenance Department in resolving the BG deficiencies. Special notice regarding these deficiencies can be attributed to both BG's mention were donated projects with expenses for materials purchased outside of the Board's local Maintenance Department. For future projects with these specialized purchases, the district will require reporting from donating parties monthly. Controls will be set prior to original BG-1 approval with cooperation and guidance from KDE.

**Fixed Assets**

*Finding:* We noted instances where the fixed assets "Property Procedure Policy" were not followed. There were instances of assets not being coded to fixed assets before the fiscal year was closed.

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

*Cause and Effect:* Fixed assets "Property Procedures Policy" must be followed.

*Recommendation:* We recommend strict adherence to the District's "Property Procedures." Particular attention needs to be given to 1) proper and timely reconciliation of recorded amounts to the physical assets, 2) the fixed asset module must be reconciled to the general ledger (Funds 8 and 81). There must be communication between the Director of Finance and the fixed asset clerk to ensure that this reconciliation process is completed in a timely manner.

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

**HOPKINS COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2015**

**CURRENT YEAR MANAGEMENT LETTER POINTS, continued**

**Insurance Coverage- Vehicles**

*Finding:* We noted five vehicles included on the insurance coverage listing which were not recorded in the fixed assets module.

*Criteria:* The District's fixed asset policy.

*Cause and Effect:* This indicates coverage on vehicles no longer owned by the District.

*Recommendation:* We recommend that these coverage discrepancies be investigated and resolved appropriately. We further recommend implementation of an internal control procedure to provide for future reconciliations of the insurance coverage.

*Response:* We have initiated measures of periodic checks between the transportation department and the insurance agent to ensure that assets are adequately covered. Part of this measure also includes that only the Director of Transportation has the authority to add or delete vehicles to or from the insured list.

**PRIOR YEAR MANAGEMENT LETTER POINTS (with current year status)**

**Purchasing (Activity Funds)**

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

*Criteria:* The "Red Book" and KDOE guidelines.

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

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

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

*FYE 6/30/15:* See current year comment "Purchasing (Activity Funds)".

**Required Forms/Procedures**

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

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

**HOPKINS COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2015**

**PRIOR YEAR MANAGEMENT LETTER POINTS, continued**

**Required Forms/Procedures, continued**

*Cause and Effect:*

FORMS

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

PROCEDURES

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

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

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

*FYE 6/30/15:* See current year comment "Required Forms/Procedures".

**Receipts**

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

*Criteria:* The "Redbook" and KDOE guidelines.

*Cause and Effect:* Lack of enforcement in requiring compliance.

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

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

*FYE 6/30/15:* See current year comment "Receipts".

**HOPKINS COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2015**

**PRIOR YEAR MANAGEMENT LETTER POINTS, continued**

**Fixed Assets**

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

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

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

*Recommendation:* We recommend strict adherence to the District's "Property Procedures." Particular attention needs to be given to 1) proper and timely reconciliation of recorded amounts to the physical assets and to the performance of inventory test counts, 2) the fixed asset module must be reconciled to the general ledger (Funds 8 and 81) and depreciation recorded before the fiscal yearend close. There must be communication between the Director of Finance and the fixed asset clerk to ensure that this reconciliation process is completed in a timely manner.

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

*FYE 6/30/15:* See current year comment "Fixed Assets".