

**HINDMAN SETTLEMENT SCHOOL**

**AUDITED FINANCIAL STATEMENTS**  
**Year Ending August 31, 2024**

# HINDMAN SETTLEMENT SCHOOL

## TABLE OF CONTENTS

Independent Auditors' Report	1-3
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-20
Schedule of Expenditures of Federal Awards by Grant	21
Notes to Schedule of Expenditures of Federal Awards	22
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 Governmental Auditing Standards	23-24
Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance	25-27
Schedule of Findings and Questioned Costs	28-29
Schedule of Prior Audit Findings	30

# SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

THOMAS S. SPARKS, CPA  
RYAN R. LASKI, CPA  
JUSTIN B. NICHOLS, CPA  
EMILY N. JACKSON, CPA

SUSAN A. LACY, CPA  
JESSIE N. SANDEFUR, CPA

LAURENCE T. SUMMERS  
1961-1992  
STUART K. MCCRARY, JR., CPA  
1982-2022

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Hindman Settlement School  
Hindman, Kentucky

### Opinion

We have audited the accompanying financial statements of Hindman Settlement School (a nonprofit organization), which comprise the statement of financial position as of August 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hindman Settlement School as of August 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hindman Settlement School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements for the year ended August 31, 2024, Hindman Settlement School adopted new accounting guidance, Financial Accounting Standards Board, Accounting Standards update No. 2016-13 *Financial Instruments – Credit Losses (Topic 326)*. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hindman Settlement School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hindman Settlement School's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hindman Settlement School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 May 2, 2025, on our consideration of Hindman Settlement School'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hindman Settlement School's 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 Hindman Settlement School's internal control over financial reporting and compliance.

*Summers, McCrary & Sparks, PSC*

Lexington, KY  
May 2, 2025

**HINDMAN SETTLEMENT SCHOOL  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2024**

**ASSETS**

Current Assets	
Cash and Cash Equivalents	\$ 1,047,342
Tuition Receivable, Net of Allowance	800
Pledges Receivable, Net of Allowance	28,352
Inventory, at Cost	6,745
Lease Receivable	3,067
Prepaid Expenses	9,489
Total Current Assets	<u>1,095,795</u>
Long Term Investments	
Endowment Investments	8,442,690
Beneficial Interest in Trusts	3,947,436
Total Long Term Investments	<u>12,390,126</u>
Buildings and Equipment	
Land	131,171
Buildings	3,498,311
Property Improvements	793,105
Vehicles	19,668
Equipment	307,791
Utilities System	27,032
	<u>4,777,078</u>
Accumulated Depreciation and Amortization	<u>(2,761,260)</u>
Total Buildings and Equipment, Net	<u>2,015,818</u>
Lease Receivable	<u>18,945</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>15,520,684</u></u></b>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts Payable	\$ 58,294
Accrued Liabilities	85,374
Deferred Revenue	5,600
Current Portion of Long-Term Debt	3,782
Total Current Liabilities	<u>153,050</u>
Long-Term Debt	<u>140,142</u>
Total Long Term Liabilites	<u>140,142</u>
Total Liabilities	<u>293,192</u>
Net Assets	
Without Donor Restrictions	10,348,064
With Donor Restrictions	<u>4,879,428</u>
Total Net Assets	<u>15,227,492</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u><u>15,520,684</u></u></b>

The accompanying notes are an integral part of the financial statements

**HINDMAN SETTLEMENT SCHOOL  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2024**

**CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

**Revenue and Support**

Contributions	\$	285,334
Interest and Dividend Income, net of fees		287,299
Fees and Reimbursements		206,884
Net Unrealized Gain on Investments		806,985
Net Realized Gain on Investments		104,429
Interest - Lease Receivable		1,247
Other		82,733
Total Unrestricted Revenues		1,774,911
Net Assets released from Restrictions and Reclassification		2,355,003
Total Unrestricted Revenues and Support		4,129,914

**Expenses**

Program Service		
Dyslexia Program		1,048,409
Cultural Programs		622,493
Community Services		917,358
Total Program Service Expense		2,588,260
Support Service		
Management and General		229,340
Fundraising		196,577
Facilities and Maintenance		262,102
Total Support Service Expense		688,019
Total Expenses		3,276,279

**INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS** 853,635

**CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS**

Contributions	197,847
Grants	2,106,318
Interest and Dividend Income, net of fees	14,481
Net Unrealized Gain on Investments	76,998
Net Realized Gains on Investments	19,303
Change in Fair Market Value in Charitable Trust	439,129
Net Assets Released from Restrictions and Reclassifications	(2,355,003)
	499,073

**INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS** 499,073

**CHANGE IN TOTAL NET ASSETS** 1,352,708

Net Assets at Beginning of Year 13,874,784

**NET ASSETS AT END OF YEAR** \$ 15,227,492

The accompanying notes are an integral part of the financial statements

**HINDMAN SETTLEMENT SCHOOL  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2024**

	Program Expenses			Supporting Services Expenses			Total
	Dyslexia Program	Cultural Programs	Community Services	Management & General	Fundraising	Facilities & Maintenance	
Compensation and Related Expenses							
Salaries	\$ 541,406	\$ 321,460	\$ 473,730	\$ 118,433	\$ 101,514	\$ 135,351	\$ 1,691,893
Contract Labor	46,934	27,867	41,068	10,267	8,800	11,734	146,670
Employee Benefits							
Medical	85,420	50,718	74,742	18,686	16,016	21,355	266,937
Dental	1,905	1,131	1,667	417	357	476	5,954
Retirement	18,164	10,785	15,893	3,973	3,406	4,541	56,762
Payroll Taxes	40,840	24,249	35,735	8,934	7,658	10,210	127,625
	<u>734,669</u>	<u>436,210</u>	<u>642,835</u>	<u>160,709</u>	<u>137,750</u>	<u>183,667</u>	<u>2,295,841</u>
Advertising	2,048	1,216	1,792	448	384	512	6,401
Books and subscriptions	3,254	1,932	2,847	712	610	814	10,169
Craft shop vendors	598	355	523	131	112	149	1,868
Depreciation and amortization	48,303	28,680	42,265	10,566	9,057	12,076	150,946
Equipment rental and maintenance	2,482	1,474	2,172	543	465	621	7,757
Fundraising event	9,231	5,481	8,077	2,019	1,731	2,308	28,846
Insurance							
Disability and life	342	203	299	75	64	85	1,068
Building, liability and vehicle	21,955	13,036	19,210	4,803	4,116	5,489	68,608
Worker's compensation	676	402	592	148	127	169	2,114
Internet	2,868	1,703	2,509	627	538	717	8,962
Interest	1,109	659	971	243	208	277	3,467
Membership dues	412	245	360	90	77	103	1,287
Miscellaneous	295	175	258	65	55	74	922
Occupancy							
Dining hall	13,502	8,017	11,814	2,954	2,532	3,375	42,193
Electricity	13,100	7,778	11,462	2,866	2,456	3,275	40,936
Furnishings	15,230	9,043	13,326	3,332	2,856	3,807	47,593
Gas	3,396	2,017	2,972	743	637	849	10,614
Water and sewer	5,604	3,327	4,903	1,226	1,051	1,401	17,512
Garbage	1,895	1,125	1,658	415	355	474	5,923
Routine maintenance	3,842	2,281	3,361	840	720	960	12,005
Physical plant maintenance	5,000	2,969	4,375	1,094	938	1,250	15,626
Housekeeping	568	337	497	124	107	142	1,776
Office	20,332	12,072	17,791	4,448	3,812	5,083	63,539
Postage	2,372	1,408	2,075	519	445	593	7,411
Printing	10,093	5,993	8,832	2,208	1,893	2,523	31,542
Professional/outside services	24,774	14,710	21,677	5,419	4,645	6,194	77,419
Professional development	2,584	1,534	2,261	565	485	646	8,075
Program	33,424	19,846	29,246	7,312	6,267	8,356	104,450
Recreation/staff retreat	2,418	1,435	2,115	529	453	604	7,555
Taxes	11,236	6,671	9,831	2,458	2,107	2,809	35,111
Technology	21,035	12,489	18,405	4,601	3,944	5,259	65,733
Telephone	2,159	1,282	1,889	472	405	540	6,748
Travel and Auto	27,604	16,390	24,153	6,038	5,176	6,901	86,262
Total Expenses	\$ <u>1,048,409</u>	\$ <u>622,493</u>	\$ <u>917,358</u>	\$ <u>229,340</u>	\$ <u>196,577</u>	\$ <u>262,102</u>	\$ <u>3,276,279</u>

The accompanying notes are an integral part of the financial statements

**HINDMAN SETTLEMENT SCHOOL  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2024**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in Net Assets	\$ 1,352,708
Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities	
Depreciation and Amortization	150,946
Realized (Gain) on Investments	(123,732)
Unrealized (Gain) on Investments	(883,983)
Change in Trust Held in Perpetuity	(439,129)
Changes in Assets and Liabilities:	
Decrease (Increase) in Prepaid Expenses	12,005
Increase (Decrease) in Accounts Payable	8,161
Increase (Decrease) in Accrued Liabilities	<u>14,605</u>
Net Cash Provided (Used) by Operating Activities	<u>91,581</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>	
Proceeds from Lease Receivable	2,921
Acquisition of Building and Equipment	(258,999)
Purchase of Investments	(191,418)
Proceeds from Sale of Investments	<u>443,137</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,359)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>	
Payments on Finance Leases	(3,757)
Payments on Long-Term Debt	<u>(3,679)</u>
Net Cash Provided (Used) by Financing Activities	<u>(7,436)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>79,786</u>
Cash and Cash Equivalents at the Beginning of the Year	<u>967,556</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<u><u>\$ 1,047,342</u></u>
Supplemental Information:	
Cash paid for interest during the year	\$ 3,467

The accompanying notes are an integral part of the financial statements

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of the Organization

Hindman Settlement School (the "School") is a nonprofit corporation organized in 1902. The School offers education and service programs that address critical needs of the region's youth and adults, promote cultural awareness and build upon Appalachia's rich cultural heritage. While the primary service area is southeastern and eastern Kentucky, the School draws visitors from far beyond the region.

Basis of Presentation

The School prepares its financial statements in accordance with generally accepted accounting principles, which requires the School to report information regarding its financial position and activities according to the following net asset classifications:

- Net Assets without donor restrictions: Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the School.
- Net assets with donor restrictions: net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the School or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities

Advertising

The School uses advertising to promote its programs and recruit staff. The costs of advertising are expensed as incurred. Advertising expense for the year ended August 31, 2024 was \$6,401.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The School, for purposes of the statement of cash flows, considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory

The School has gift shop items as inventory which is stated at the lower of cost or market determined by the first-in, first-out method.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments

Investments are reported at fair market value in accordance with generally accepted accounting principles. The net unrealized and realized gains or losses for investments are reported in the statement of activities.

Buildings and Equipment

Land, buildings, and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the respective assets, which range from 30 to 40 years for buildings and 5 to 10 years for equipment. Depreciation expense for the year ended August 31, 2024 was \$147,270. The School follows the practice of capitalizing expenditures for land, buildings and equipment, which are considered capital improvements, over \$2,500. All other expenditures are expensed as repairs and maintenance. Donated fixed assets are capitalized at their estimated fair market values at date of receipt.

Contributions

The School reports contributions of cash and other assets as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The School reports contributions of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. In accordance with a Gift Acceptance Policy, values for in-kind donations of goods or services valued at less than \$500 are not recorded.

Tuition Receivable

The School recognizes summer school tuition as revenue when earned. The tuition receivable is presented net of an allowance for uncollectible accounts. The allowance for credit losses as of August 31, 2024 was \$1,300.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Pledge Receivables

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; however the School is not exempt from tax imposed upon unrelated activity income. The School did incur taxes during the year related to its investment activity. During the year the School paid \$35,111 in federal, state and foreign taxes.

Under generally accepted accounting principles, the School must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The School does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or possible related interest or penalties. The School is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2021.

Fair Value of Financial Instruments

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The School adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the School's financial statements or footnote disclosures.

In accordance with the Fair Value Measurements, FASB ASC 825-10, the School's cash, pledges receivable, and accounts payables, are measured at fair value, which approximate carrying value due to the short maturities of those instruments.

Function Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In accordance with the functional expense allocation policy adopted by the board, support activity expenses not directly attributable to a specific area are spread among program and support activity areas based on the number of full-time employees who work in each area.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Compensated Absences

Employees of the School are granted a specific number of paid vacation and sick leave days. Upon termination of employment, those who leave the School in good standing, will be compensated for their unused vacation days. Unused sick leave days are not paid out upon leaving the School.

Deferred Revenue

The School receives deposits and payments for programs and land lease agreements in the current fiscal year resulting in revenue which is deferred and will be released and recorded as revenue in the next fiscal year. Deferred revenue as of August 31, 2024 was \$5,600.

Leases

The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the balance sheets.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The School uses the implicit rate when it is readily determinable. Since most of the School's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the School's incremental borrowing rate based on the information available at lease commencement. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The School's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option.

Revenue Recognition

The School receives revenue primarily through the payment of tuition and fees pursuant to enrollment contracts for each student signed prior to the beginning of each school year. Revenue is recognized on a prorated basis over the fiscal year period.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Adoption of New Accounting Policies

In June 2016, the FASB issued *ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326)*. The new guidance requires financial assets to be measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial asset. The standard became effective for fiscal years beginning after December 15, 2022 and was implemented during the year ended August 31, 2024.

**NOTE 2 – CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS**

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and all highly liquid investments with an initial maturity of three months or less. Assets reserved for various purposes on the statement of financial position include restricted cash received with restrictions imposed by donors, but not yet spent. As of August 31, 2024, the School's cash balance of \$1,047,342 was unrestricted.

**NOTE 3 – PLEDGE RECEIVABLE**

In fiscal year 2017, the School began a capital campaign to obtain funds for construction of campus improvements. Capital campaign pledges receivable at August 31, 2024 represent unconditional pledges receivable as follows:

	Due in 1 Year	Total
Pledge Receivables	\$ 31,502	\$ 31,502
Allowance for uncollectible pledges	(3,150)	(3,150)
Net Pledges Receivable	\$ 28,352	\$ 28,352

Pledges receivable with due dates extending beyond one year are discounted using an applicable rate of 3%. The capital campaign pledges receivable is restricted in use for costs and expenses of the new facilities and of the campaign, itself.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 4 - INVESTMENTS**

Endowment investments consist of the following as of August 31, 2024:

	Cost	Fair Value	Unrealized Gain (Loss)
Money Market	\$ 106,921	\$ 106,921	\$ 0
Equities	3,371,049	6,044,720	2,673,671
Bonds	2,271,308	2,290,363	19,055
Alternative Investments	68,709	686	(68,023)
Total Investments	<u>\$ 5,817,987</u>	<u>\$ 8,442,690</u>	<u>\$ 2,624,703</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ending August 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and Dividends	\$ 173,929	\$ 20,156	\$ 194,085
Disbursements from Beneficial Trusts	158,601	0	158,601
Net Unrealized Gains (Losses)	806,985	76,998	883,983
Net Realized Gains (Losses)	104,429	19,303	123,732
Fees	(45,231)	(5,675)	(50,906)
Total Investment Return	<u>\$ 1,198,713</u>	<u>\$ 110,782</u>	<u>\$ 1,309,495</u>

**NOTE 5 – BENEFICIAL INTEREST IN TRUST HELD IN PERPETUITY**

The School is the beneficiary of the income from two trusts held in perpetuity by two independent trustees, which are banks. The School has an irrevocable right to receive the income earned on the trust assets in accordance to the percentages stated in each trust agreement, but will never receive the invested assets value of the trust. The income distributed to the School can be used for any purpose. The fair value is stated at quoted market prices and is reflected in donor restricted net assets. The statement of activities reflects the change in the computed fair value that occurs as a result of market fluctuations to the trust assets. Total beneficial interest in trust assets of \$3,947,436 are included in the statements of financial position for the years ended August 31, 2024.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 6 – FAIR VALUE MEASUREMENTS**

The School has determined the fair value of certain assets and liabilities through the application of FASB ASC 820, Fair Value Measurements.

Under this statement, the School groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of these assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing assets or liabilities. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Fair values of assets measured on a recurring basis at August 31, 2024:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pledge Receivable, net	\$ 28,352	\$ 0	\$ 28,352	\$ 0
Endowment Investments:				
Money Market	\$ 106,921	\$ 106,921	\$ 0	\$ 0
Equities	6,044,720	6,044,720	0	0
Bonds	2,290,363	0	2,290,363	0
Alternative Assets	686	0	686	0
Total Endowment Investments	\$ 8,442,690	\$ 6,151,641	\$ 2,291,049	\$ 0
Beneficial Interest in Trusts	\$ 3,947,436	\$ 0	\$ 0	\$ 3,947,436

**NOTE 7 - ENDOWMENT NET ASSETS**

The School's endowment consists of four investment funds. The School has adopted investment and spending policies for endowment assets that attempt to provide for long-term growth and income without the undue exposure to risk. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner with a balanced strategy for diversification utilizing fixed income, equities and cash equivalents. Investment managers invest to produce a total return commensurate with the School's spending policy, risk parameters, targeted benchmarks and time horizons.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 7 - ENDOWMENT NET ASSETS (continued)**

For the year ended August 31, 2024, the School's policy for appropriating annual distributions from the endowment was based on 4.5% of the rolling 36-month average of the endowment balance. The School has adopted a policy to reduce the distribution percentage by .1% a year until the distribution percentage reached 4% of the rolling 36-month average of the endowment balance.

The Board of Directors of the School has interpreted Kentucky Revised Statute 273 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as donor restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified with donor restrictions is classified as without donor restrictions. The Board has the responsibility to exercise ordinary business care and prudence in the spending of these assets unless otherwise instructed by the donor.

Endowment Net Assets Composition by Type of Fund as of August 31, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 0	\$ 931,992	\$ 931,992
Without donor-restricted endowment funds	7,510,698	0	7,510,698
	<u>\$ 7,510,698</u>	<u>\$ 931,992</u>	<u>\$ 8,442,690</u>

Changes in endowment net assets for the year ended August 31, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,814,644	\$ 872,048	\$ 7,686,692
Interest and dividends	125,949	14,481	140,430
Unrealized gain	800,146	76,998	877,144
Realized gain	104,428	19,303	123,731
Contributions	83	0	83
Appropriations of endowment for expenditures	(334,552)	(50,838)	(385,390)
Endowment net assets, end of year	<u>\$ 7,510,698</u>	<u>\$ 931,992</u>	<u>\$ 8,442,690</u>

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 8 – LINE OF CREDIT**

The School opened a \$150,000 line of credit on September 30, 2021, with the Bank of Hindman, which carries an interest rate of 5%. The line of credit expired on September 30, 2023 and was not renewed.

**NOTE 9 - LONG-TERM DEBT**

Long-term debt consists of the following at August 31, 2024:

Small Business Administration EIDL loan, interest at a rate of 2.75%  
monthly payments of principal and interest beginning in January 2023 of  
\$719, maturing in December 2050

	143,924
Total Debt	\$ 143,924
Less: Current Portion	\$ (3,782)
Long-Term Portion	\$ 140,142

The following table summarizes the aggregate maturities of long-term debt at August 31:

2025	3,782
2026	3,887
2027	3,995
2028	4,106
2029	4,221
Thereafter	123,933
	\$ 143,924

**NOTE 10 - LEASE OBLIGATIONS**

The School had one finance leases that expired during the year ended August 31, 2024.

The following summarizes the line items in the Statement of Income which include the components of lease expense for the year ended August 31, 2024:

Finance lease costs:

Amortization of right-of-use assets in depreciation and amortization	\$ 3,676
Interest on lease liabilities included in interest expense	95
Total finance lease costs	\$ 3,771

The following summarizes cash flow information related to leases for the year ended August 31, 2024:

Cash paid for amounts included in the in the measurement of lease liabilities:

Financing cash flows from finance leases	\$ 3,757
--	----------

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 11 – LESSOR ACTIVITIES**

In 2006, the School signed a Lease Agreement with East Kentucky Network, LLC d/b/a Appalachian Wireless (Lessee), for the use of land defined within the agreement. The lease term is for 25 years, with an exclusive option of the Lessee to extend the lease for an additional 25 years. The lease requires the lessee to pay the School annual payments that increase every five years. The lease has been classified as a sales-type lease. As of August 31, 2024, the School has a Lease Receivable balance of \$22,012. During the year ended August 31, 2024, the School received \$1,247 in interest income associated with the lease receivable.

The following summarizes cash flow information related to the lease receivable for the year ended August 31, 2024:

Cash received for amounts included in the in the measurement of lease receivable:

Investing cash flows from lease receivable	\$	2,921
--	----	-------

The maturity of lease receivables as August 31, 2024 is as follows:

August 31, 2025	\$	4,167
August 31, 2026		4,376
August 31, 2027		4,376
August 31, 2028		4,376
August 31, 2029		4,376
Thereafter		4,376
Total undiscounted cash flows		26,047
Lease receivable		22,012
Difference between undiscounted and discounted payments	\$	4,035

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 12 - NET ASSETS**

Net assets with donor restrictions are restricted for the following purposes as of August 31, 2024:

Endowments:

Subject to endowment spending policy and appropriations:

Alae Risse Leitch Fund	14,346
Charlene Gillcock Farrell Scholarship Fund	15,658
Dana's Children Fund	15,766
George & Hattie Bailey Scholarship Endowment Fund	34,220
Grayson Johnson Family Endowment Fund	153,379
Paul and Helen Earp Scholarship Fund	23,838
Hollie & Mildred Collins Scholarship	39,500
Kentucky Society DAR "Gift of Reading" Endowment	32,432
Mable Hall Combs Scholarship	10,988
Marcia Smith Lawrence Folk Arts Education Fund	331,040
Mike and Frieda Mullins Scholarship	20,918
Mike Mullins Memorial Fund	13,606
Robert Franklin White Memorial Scholarship Fund	4,689
Rosie Johnson Mullins and Wallace Bailey Mullins Endowment Fund	8,246
Shiloh Fields Scholarship Fund	19,311
Texas Centennial Scholarship Fund	17,748
Zink Administration Dyslexia Scholarship Fund	5,302
Toni Stabile Scholarship Endowment for Children with Reading Difficulties	108,774
Juanita Holt Fasola Endowment for Children with Learning Differences	51,774
David Payne Appalachian Writers Workshop Scholarship Endowment	<u>10,457</u>
Total endowments	<u>931,992</u>
Not subject to appropriation or expenditure:	
Beneficial Interest in Perpetual Trust	<u>3,947,436</u>
Total	<u><u>\$ 4,879,428</u></u>

The School has several other endowed funds that are established for specific purposes. The agreements establishing many of these funds either include language that addresses extenuating circumstances or don't exist in written form. These funds are treated as restricted from an operational standpoint, but they are not technically donor restricted funds.

Net assets without donor restrictions were as follows as of August 31, 2024:

Undesignated	\$ 10,348,064
Total	<u>\$ 10,348,064</u>

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 13 – CONCENTRATION OF CREDIT RISK**

The School maintains cash in deposit accounts with federally insured banks. As of August 31, 2024 cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each participating bank. The School's uninsured balance was \$357,322 as of August 31, 2024.

**NOTE 14 - PROMISE TO GIVE**

The School was named the beneficiary of a \$29,000 life insurance policy. This conditional promise to give is not recognized as an asset in the statements of financial position at the years ended August 31, 2024.

**NOTE 15 - DEFERRED COMPENSATION ARRANGEMENT**

The School permits employees to participate in a deferred compensation arrangement through Teachers Insurance and Annuity Association (TIAA) under I.R.C. Code 403(b). Participating employees may elect to contribute up to the allowable limits, set by the I.R.S., while the School contributes 7% of their wages. The School's contribution was \$56,762 for the year ended August 31, 2024.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

Grants and bequests require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the School deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of the organization to the provisions of the gift.

**NOTE 17 - RISK AND UNCERTAINTIES**

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**NOTE 18 – CHARITABLE TRUSTS**

During the year ended August 31, 2009, the School was named as one of the organizations that can receive distributions of the earnings and principal of the Mable Slagle Charitable Trust, administered by Merrill Lynch as trustee. Distributions from the trust are awarded by the trustee, through a request process. During the year ended August 31, 2024, the School received a total of \$25,000 in distributions from the Mable Slagle Charitable Trust.

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2024**

**NOTE 19 – AVAILABILITY AND LIQUIDITY**

The School has not adopted a formal liquidity management plan. The School continually reviews its financial assets and assesses if these financial assets are sufficient to meet cash needs for general expenditures. The School's financial assets for this purpose include cash and cash equivalents, accounts and other receivables, other current assets, investments, and beneficial interests in trusts. As of August 31, 2024, the School's financial assets available to meet cash needs for general expenditures within one year are as follows:

Current Assets	\$ 1,095,795
Long Term Investments	<u>12,390,126</u>
	13,485,921
Less those unavailable for general expenditures within one year due to:	
Restricted by donor with time or purpose restrictions	(931,992)
Beneficial interest in trusts	<u>(3,947,436)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,606,493</u>

**NOTE 20 - SUBSEQUENT EVENTS**

On April 26, 2025, the School received notification that the federal government had cancelled its funding for both the reading and math grants the School receives. The revenue from these grants made up approximately one-third of the Schools total revenue.

Subsequent events were evaluated through May 2, 2025, which is the date the financial statements were available to be issued.

**HINDMAN SETTLEMENT SCHOOL**  
**Schedule of Expenditures of Federal Awards By Grant**  
**For the Year Ended August 31, 2024**

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal Assistance Listing Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
<b>Corporation for National and Community Service</b>			
<i>Passed Through Kentucky Cabinet for Health and Family Services</i>			
<i>AmeriCorps State and National</i>			
		21ACCKY0010005	
		23AFCKY0010008	
AmeriCorps State and National	94.006	23AFCKY0010003	\$ 961,859
Total AmeriCorps State and National			<u>961,859</u>
<i>Total Corporation for National and Community Service</i>			<u>961,859</u>
<b>National Endowment for the Humanities</b>			
<i>Passed Through Kentucky Tourism, Arts and Heritage Cabinet</i>			
<i>Promotion of the Arts Partnership Agreements</i>			
Promotion of the Arts Partnership Agreements	45.025	KAP240055	38,134
Total Promotion of the Arts Partnership Agreements			<u>38,134</u>
<i>Total National Endowment for the Humanities</i>			<u>38,134</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 999,993</u>

The accompanying notes are an integral part of this schedule

**HINDMAN SETTLEMENT SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AUGUST 31, 2024**

**NOTE 1- BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hindman Settlement School under the programs of the federal government for the year ended August 31, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the Hindman Settlement School, it is not intended to and does not present the financial position, changes in net position or cash flows of the School.

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Hindman Settlement School did not elect to use the 10% de minimus indirect cost rate.

**NOTE 3 – SUBRECIPIENTS**

The School did not pass through any federal awards to a subrecipient in the current fiscal year.

**SUMMERS, MCCRARY & SPARKS, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

---

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

THOMAS S. SPARKS, CPA  
RYAN R. LASKI, CPA  
JUSTIN B. NICHOLS, CPA  
EMILY N. JACKSON, CPA

---

SUSAN A. LACY, CPA  
JESSIE N. SANDEFUR, CPA

---

LAURENCE T. SUMMERS  
1961-1992  
STUART K. MCCRARY, JR., CPA  
1982-2022

**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**

To the Board of Directors of  
Hindman Settlement School  
Hindman, 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, the financial statements of the Hindman Settlement School (a nonprofit organization), which comprise the statement of financial position as of August 31, 2024, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statement, and have issued our report thereon dated May 2, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hindman Settlement School's internal control over financial reporting (internal control) as a basis for designing 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 Hindman Settlement School's internal control. Accordingly, we do not express an opinion on the effectiveness of Hindman Settlement School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hindman Settlement School'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management in a separate letter dated May 2, 2025.

### **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 organization'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.

*Summers, McCrary & Sparks, PSC*

Lexington, KY

May 2, 2025

# SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

THOMAS S. SPARKS, CPA  
RYAN R. LASKI, CPA  
JUSTIN B. NICHOLS, CPA  
EMILY N. JACKSON, CPA

SUSAN A. LACY, CPA  
JESSIE N. SANDEFUR, CPA

LAURENCE T. SUMMERS  
1961-1992  
STUART K. MCCRARY, JR., CPA  
1982-2022

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of  
Hindman Settlement School  
Hindman, Kentucky

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited the Hindman Settlement School's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hindman Settlement School's major federal programs for the year ended August 31, 2024. Hindman Settlement School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hindman Settlement School 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 August 31, 2024.

#### ***Basis for Opinion on Each Major Federal Program***

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hindman Settlement School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hindman Settlement School's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hindman Settlement School's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hindman Settlement School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Hindman Settlement School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hindman Settlement School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hindman Settlement School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Hindman Settlement School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Summers, McCrary & Sparks, PSC*

Lexington, KY

May 2, 2025

**HINDMAN SETTLEMENT SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2024**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued - unmodified

Internal control over financial reporting:

Material weakness(es) identified?      \_\_\_\_\_yes      X  no

Significant deficiencies identified  
\_\_\_\_\_yes      X  none reported

Noncompliance material to financial statements noted?      \_\_\_\_\_yes      X  no

**Federal Awards**

Internal control over majority programs:

Material weakness(es) identified?      \_\_\_\_\_yes      X  no

Significant deficiencies identified  
\_\_\_\_\_yes      X  none reported

Type of auditor's report issued on compliance for the major programs - unmodified

Any audit findings disclosed that are required to be report in accordance with 2 CFR section 200.516 (a)?      \_\_\_\_\_yes      X  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
94.006	AmeriCorps State and National

Dollar threshold used to distinguish between type A and type B programs:      \$750,000

Auditee qualified as low-risk auditee?        X  yes    \_\_\_\_\_no

**HINDMAN SETTLEMENT SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2024**

**Financial Statement Findings**

No findings in the current year

**Federal Award Findings and Questioned Costs**

No findings in the current year.

**HINDMAN SETTLEMENT SCHOOL  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2024**

**Financial Statement Findings**

No findings in the prior year

**Federal Award Findings and Questioned Costs**

No findings in the prior year.