

LYON COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

**LYON COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee
for School District Audits
Members of the Board of Education
Lyon County School District
Eddyville, 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 Lyon County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' 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, 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 in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Lyon County School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–13 and 48-49 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 Lyon County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements 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.

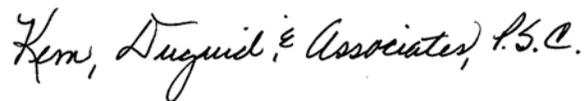
The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of Lyon 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 Lyon County School District's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.

A handwritten signature in cursive script that reads "Kem, Duguid & Associates, P.S.C.".

Certified Public Accountants
Hopkinsville, Kentucky

November 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Lyon County School District (the “District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,839,101, as compared with the beginning cash balance of \$5,567,533. The ending cash balance consisted of General Fund of \$1,314,094, Special Revenue Fund of \$22,184, Construction Fund of \$383,180, Food Service Fund of \$18,181, and School Activity Funds of \$101,462.
- Total government-wide net position increased by \$473,339 for the fiscal year ended June 30, 2013. Total long-term obligations had a net decrease of \$696,983, while the unrestricted net assets increased \$201,216 and restricted assets decreased \$74,352.
- The General Fund had \$7,113,091 in revenues, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year revenues of \$6,925,244. There was no tax increase for the year as the Board used the compensating rate. Excluding interfund transfers, there were \$6,865,942 in General Fund expenditures. This compares to \$6,522,189 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,377,931 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance, and technology. A like amount of expenses is also recorded in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District’s assets and deferred outflows of resources and liabilities. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position – the difference between the District’s assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the District’s financial health or position.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District’s activities are reported as governmental activities.

- Governmental activities – All of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – The District’s proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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.

Other information – In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information, as well as combining and individual fund statements and schedules beginning on page 46.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$4,765,078 as of June 30, 2013.

A significant portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any outstanding related debt used to acquire those assets. 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.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2013 and 2012:

Net Position for the Fiscal Years Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current assets						
and other assets	\$ 1,903,768	\$ 5,774,987	\$ 49,940	\$ 62,511	\$ 1,953,708	\$ 5,837,498
Capital assets	12,027,930	8,224,805	51,978	56,712	12,079,908	8,281,517
Total assets	<u>13,931,698</u>	<u>13,999,792</u>	<u>101,918</u>	<u>119,223</u>	<u>14,033,616</u>	<u>14,119,015</u>
Current liabilities	240,991	558,024	418	344	241,409	558,368
Noncurrent obligations	9,027,129	9,268,908	-	-	9,027,129	9,268,908
Total liabilities	<u>9,268,120</u>	<u>9,826,932</u>	<u>418</u>	<u>344</u>	<u>9,268,538</u>	<u>9,827,276</u>
Net position						
Investment in capital assets, net of related debt	3,447,354	3,096,145	51,978	56,712	3,499,332	3,152,857
Restricted	193,854	268,206	-	-	193,854	268,206
Unrestricted	1,022,370	808,509	49,522	62,167	1,071,892	870,676
Total net position	<u>\$ 4,663,578</u>	<u>\$ 4,172,860</u>	<u>\$ 101,500</u>	<u>\$ 118,879</u>	<u>\$ 4,765,078</u>	<u>\$ 4,291,739</u>

Change in net position. The District’s governmental activities net position increased by \$490,718 including the effect of adopting GASB 65 \$(67,241), and business-type activities net position decreased \$17,379.

The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District, and the payments are recorded as revenue from the State. Another increase is the expenditure of current revenues on capital assets, an expenditure that does not reduce net assets on the government-wide statements.

The District’s financial position is the product of many factors. For example, the determination of the District’s investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2013 and 2012:

Changes in Net Position for the Fiscal Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		District Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 2,053,700	\$ 4,313,347	\$ 259,311	\$ 253,863	\$ 2,313,011	\$ 4,567,210
Capital grants and contributions	503,575	95,492	-	-	503,575	95,492
Charges for services	-	-	119,314	141,091	119,314	141,091
General revenues:						
Property taxes	2,594,174	2,463,351	-	-	2,594,174	2,463,351
Other taxes	1,685,233	1,563,854	-	-	1,685,233	1,563,854
Investment earnings	6,695	8,056	85	166	6,780	8,222
State aid	1,855,808	40,897	57,213	38,416	1,913,021	79,313
Other	103,147	43,242	1,749	1,895	104,896	45,137
Total revenues	8,802,332	8,528,239	437,672	435,431	9,240,004	8,963,670
Expenses:						
Instruction	4,655,995	4,749,965	-	-	4,655,995	4,749,965
Student support services:	336,051	324,875	-	-	336,051	324,875
Instructional support	559,864	561,233	-	-	559,864	561,233
District administration	527,982	389,896	-	-	527,982	389,896
School administration	447,098	472,805	-	-	447,098	472,805
Business support	234,354	215,781	-	-	234,354	215,781
Plant operations	613,411	641,806	-	-	613,411	641,806
Student transportaion	503,338	542,332	-	-	503,338	542,332
Community services	73,632	80,996	-	-	73,632	80,996
Interest on long-term debt	291,348	226,394	-	-	291,348	226,394
Amortization	-	5,962	-	-	-	5,962
Other	1,300	1,894	-	-	1,300	1,894
Food service	-	-	455,051	439,112	455,051	439,112
Total expenses	8,244,373	8,213,939	455,051	439,112	8,699,424	8,653,051
Increase (Decrease) in net position	\$ 557,959	\$ 314,300	\$ (17,379)	\$ (3,681)	\$ 540,580	\$ 310,619

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$1,676,870 an decrease of \$3,475,901 in comparison with the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2013 and 2012.

The main sources of the General Fund’s revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the Districts activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state and expenditures of those grants for specific programs in accordance with the grants’ guidelines.

The SEEK Capital Outlay Fund’s revenues are derived from state SEEK allowances based upon student enrollment. The FSPK Building Fund’s revenues are produced by a five-cent property tax equivalent. The use of both funds’ resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

The Debt Service Fund is used to account for all activities related to long-term bond obligations.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Following is a summary of fund balances for the fiscal years ended June 30, 2013 and 2012:

Governmental Funds Balances as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 1,331,386	\$ 971,780	\$ 359,606
Special Revenue Fund	-	-	-
Building Fund	-	56,930	(56,930)
Construction	345,484	4,106,640	(3,761,156)
Capital Outlay	-	17,076	(17,076)
Debt Service Fund	-	345	(345)
	<u> </u>	<u> </u>	<u> </u>
Total governmental funds	<u>\$ 1,676,870</u>	<u>\$ 5,152,771</u>	<u>(3,475,901)</u>
 Proprietary Funds			
Food Service Fund	<u>\$ 101,500</u>	<u>\$ 118,879</u>	<u>(17,379)</u>
 Fiduciary Funds			
School Activity Funds	<u>\$ 101,462</u>	<u>\$ 104,801</u>	<u>(3,339)</u>

General Fund – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$1,125,684, while total fund balance reached \$1,331,386. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 16.40% of total General Fund expenditures, while total fund balance represents 19.39% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$359,606. Revenues and transfers totaling \$7,238,251, increased by \$192,507, while expenditures and transfers totaling \$6,878,645, increased by \$76,110.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement/encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of 6.91%. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

As noted on the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget did not include \$1,287,251 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2013, net of interfund transfers, beginning balances, and on-behalf payments, were \$5,825,840; compared to the total budgeted revenues of \$5,478,400.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2013, net of interfund transfers and on-behalf payments, were \$5,578,691; compared to the total budgeted expenditures, net of contingency \$(430,634), of \$5,793,448.
- The fund balance at the end of the 2013 fiscal year for all Governmental Funds was \$1,331,386 compared to \$5,152,771 in the prior year.

Significant Board action that impacts the District’s finances includes the award of multiple contracts and salary increases mandated by the Legislature.

Fund 2 is made up of state, local, and federal grants. These grants include Title I, No Child Left Behind Funding, Preschool, Special Education funding, and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, and transportation.

Funds 310 and 320 are restricted funds for capital projects or debt service. The State contributes to Fund 310.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2013, the District had \$12,079,930 invested in capital assets net of depreciation: historical costs totaled \$17,932,612 with accumulated depreciation totaling \$5,852,704. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. Expenditures for acquisitions and improvements during the year totaled \$4,114,494. Depreciation charged to expense during the year totaled \$315,868, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2013 and 2012.

Net Capital Assets for the Fiscal Years Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 223,109	\$ 223,109	\$ -	\$ -	\$ 223,109	\$ 223,109
Land improvements	4,010	22,272	-	-	4,010	22,272
Construction in progress	4,880,657	872,704	-	-	4,880,657	872,704
Building and improvements	6,397,001	6,531,498	27,342	28,527	6,424,343	6,560,025
Technology equipment	53,750	84,905	856	1,231	54,606	86,136
General equipment	108,767	111,289	-	-	108,767	111,289
Vehicles	360,636	379,028	-	-	360,636	379,028
Food service equipment	-	-	23,780	26,954	23,780	26,954
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 12,027,930</u>	<u>\$ 8,224,805</u>	<u>\$ 51,978</u>	<u>\$ 56,712</u>	<u>\$ 12,079,908</u>	<u>\$ 8,281,517</u>

Long-Term Debt – The District’s long-term general obligation bonds outstanding at June 30, 2013 were \$8,926,060. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payment under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$866,363 of the bonds leaving the District to pay \$8,059,697. The liability for compensated absences increased \$75,026 from \$26,043 in the prior year to \$101,069 for the year ending June 30, 2013. Other long-term obligations, mostly leases on buses, will decrease as the leases are paid down.

The State must approve the issuance of any new bonds of the District.

More detailed information about the District’s long-term liabilities may be found in Note 4 to the financial statements.

OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District’s major source of revenue is state aid, primarily Kentucky SEEK funding.

The District’s financial position is contingent upon legislation and factors related to property taxation in conjunction with decisions made by the District’s Board management. The District remains committed to utilizing resources to provide the maximum benefit to students and provide them with a quality education. This involves closely monitoring legislation and seeking new sources of revenues through grant writing, etc.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances, comply with finance-related laws and regulations, and demonstrate the District’s commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Superintendent or District finance personnel (270) 388-9715 ext. 401 or by mail at 217 Jenkins Road, Eddyville, KY 42038.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LYON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,719,458	\$ 18,181	\$ 1,737,639
Accounts receivable:			
Taxes	-	-	-
Other	22,857	16,347	39,204
Intergovernmental - state	-	-	-
Intergovernmental - indirect federal	77,026	-	77,026
Inventory	-	15,412	15,412
Bond discount	84,427	-	84,427
Capital assets:			
Non-depreciable	5,103,766	-	5,103,766
Depreciable (net)	6,924,164	51,978	6,976,142
	<u>13,931,698</u>	<u>101,918</u>	<u>14,033,616</u>
LIABILITIES			
Accounts payable	51,219	418	51,637
Accrued payroll and related expenses	(7,329)	-	(7,329)
Unearned revenue	98,581	-	98,581
Interest payable	98,520	-	98,520
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	455,204	-	455,204
Accrued sick leave	-	-	-
Portion due or payable after one year:			
Bonds payable	8,470,856	-	8,470,856
Accrued sick leave	101,069	-	101,069
	<u>9,268,120</u>	<u>418</u>	<u>9,268,538</u>
NET POSITION			
Invested in capital assets, net of related debt	3,447,354	51,978	3,499,332
Restricted for:			
Construction	193,854	-	193,854
SFCC	-	-	-
Unrestricted	1,022,370	49,522	1,071,892
	<u>\$ 4,663,578</u>	<u>\$ 101,500</u>	<u>\$ 4,765,078</u>

See accompanying notes to financial statements

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

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
Governmental Activities:					
Current:					
Instruction	\$ 4,655,995	\$ -	\$ 1,553,243	\$ -	\$ (3,102,752)
Support services:					
Student	336,051	-	89,670	-	(246,381)
Instructional staff	559,864	-	102,177	-	(457,687)
District administration	527,982	-	63,878	-	(464,104)
School administration	447,098	-	48,762	-	(398,336)
Business	234,354	-	55,419	-	(178,935)
Plant operation and maintenance	613,411	-	38,778	-	(574,633)
Student transportation	503,338	-	34,378	-	(468,960)
Community service activities	73,632	-	67,395	-	(6,237)
Other	1,300	-	-	-	(1,300)
Interest on long-term debt	291,348	-	-	503,575	212,227
Amortization	-	-	-	-	-
Total governmental activities	8,244,373	-	2,053,700	503,575	(5,687,098)
Business-Type Activities:					
Food service	455,051	119,314	259,311	-	(76,426)
Total business-type activities	455,051	119,314	259,311	-	(76,426)
Total activities	\$ 8,699,424	\$ 119,314	\$ 2,313,011	503,575	\$ (5,763,524)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Assets					
Net revenues (expenses)			\$ (5,687,098)	\$ (76,426)	\$ (5,763,524)
General Revenues					
Taxes:					
Property			2,594,174	-	2,594,174
Motor vehicle			414,455	-	414,455
Utilities			455,799	-	455,799
Other			814,979	-	814,979
Investment earnings			6,695	85	6,780
State aid			1,855,808	57,213	1,913,021
Gain (loss) on sale of fixed assets			14,334	-	14,334
Miscellaneous			88,813	1,749	90,562
Total general revenues			6,245,057	59,047	6,304,104
Change in net assets			557,959	(17,379)	540,580
Net position, July 1, 2012			4,172,860	118,879	4,291,739
Effect of Adoption of GASB 65			(67,241)	-	(67,241)
Net position, July 1, 2012, restated			4,105,619	118,879	4,224,498
Net position, June 30, 2013			\$ 4,663,578	\$ 101,500	\$ 4,765,078

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,314,094	\$ 22,184	\$ 383,180	-	\$ 1,719,458
Accounts receivable:					
Taxes	-	-	-	-	-
Other	22,857	-	-	-	22,857
Intergovernmental - state	-	-	-	-	-
Intergovernmental - indirect federal	-	77,026	-	-	77,026
	<u>\$ 1,336,951</u>	<u>\$ 99,210</u>	<u>\$ 383,180</u>	<u>\$ -</u>	<u>\$ 1,819,341</u>
Total assets					
	<u>\$ 1,336,951</u>	<u>\$ 99,210</u>	<u>\$ 383,180</u>	<u>\$ -</u>	<u>\$ 1,819,341</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 12,894	\$ 629	\$ 37,696	\$ -	\$ 51,219
Accrued payroll and related expenses	(7,329)	-	-	-	(7,329)
Accrued sick leave	-	-	-	-	-
Unearned revenue	-	98,581	-	-	98,581
	<u>5,565</u>	<u>99,210</u>	<u>37,696</u>	<u>-</u>	<u>142,471</u>
Total liabilities					
	<u>5,565</u>	<u>99,210</u>	<u>37,696</u>	<u>-</u>	<u>142,471</u>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	193,854	-	345,484	-	539,338
Committed	11,848	-	-	-	11,848
Assigned	-	-	-	-	-
Unassigned	1,125,684	-	-	-	1,125,684
	<u>1,331,386</u>	<u>-</u>	<u>345,484</u>	<u>-</u>	<u>1,676,870</u>
Total fund balances					
	<u>1,331,386</u>	<u>-</u>	<u>345,484</u>	<u>-</u>	<u>1,676,870</u>
Total liabilities and fund balances	<u>\$ 1,336,951</u>	<u>\$ 99,210</u>	<u>\$ 383,180</u>	<u>\$ -</u>	<u>\$ 1,819,341</u>

See accompanying notes to financial statements

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

Total fund balance per fund financial statements		\$ 1,676,870
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$17,708,853, and the accumulated depreciation is \$5,680,923.		12,027,930
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Certain assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. These assets at year-end consist of:

Bond discount		84,427
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Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Bond obligations	(8,675,000)	
KISTA lease payments	(251,060)	
Interest payable on bonds	(98,520)	
Noncurrent portion of accumulated sick leave	(101,069)	(9,125,649)

Net position for governmental activities		\$ 4,663,578
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See accompanying notes to financial statements

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 2,279,002	\$ -	\$ -	\$ 315,172	\$ 2,594,174
Motor vehicle	379,747	-	-	34,708	414,455
Utilities	455,799	-	-	-	455,799
Other	814,979	-	-	-	814,979
Earnings on investments	6,639	56	-	-	6,695
Other local revenues	33,866	54,947	-	-	88,813
Intergovernmental - state	3,121,073	326,191	-	503,575	3,950,839
Intergovernmental - federal	21,986	440,258	-	-	462,244
Total revenues	7,113,091	821,452	-	853,455	8,787,998
EXPENDITURES					
Current:					
Instruction	3,757,778	657,011	-	-	4,414,789
Support Services:					
Student	307,953	27,602	-	-	335,555
Instructional staff	502,269	52,657	-	-	554,926
District administration	527,074	-	-	-	527,074
School administration	445,651	-	-	-	445,651
Business	210,534	23,536	-	-	234,070
Plant operations and maintenance	602,773	-	-	-	602,773
Student transportation	483,919	-	-	-	483,919
Community service activities	-	73,349	-	-	73,349
Building acquisition and construction	-	-	3,835,162	-	3,835,162
Architectural/engineering	1,894	-	-	-	1,894
Debt service	26,097	-	-	743,209	769,306
Total expenditures	6,865,942	834,155	3,835,162	743,209	12,278,468
Excess (deficit) of revenues over (under) expenditures	247,149	(12,703)	(3,835,162)	110,246	(3,490,470)
Other financing sources (uses)					
Bond principal proceeds, net	-	-	-	-	-
Proceeds from disposal of fixed assets	14,569	-	-	-	14,569
Operating transfers in	110,591	12,703	74,006	320,863	518,163
Operating transfers out	(12,703)	-	-	(505,460)	(518,163)
Total other financing sources (uses)	112,457	12,703	74,006	(184,597)	14,569
Net changes in fund balances	359,606	-	(3,761,156)	(74,351)	(3,475,901)
Fund balances, July 1, 2012	971,780	-	4,106,640	74,351	5,152,771
Fund balances, June 30, 2013	\$ 1,331,386	\$ -	\$ 345,484	\$ -	\$ 1,676,870

See accompanying notes to financial statements

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

Net change in fund balance - Total governmental funds \$ (3,475,901)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlay in the current period:

Capital outlay	4,114,492	
Depreciation expense	(311,134)	
Net capital outlay	3,803,358	3,803,358

The proceeds from the sale of assets are reported as revenue in the fund financial statements. However, only the gain or loss on the sale of capital assets are reported in the statement of activities (233)

Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the government funds financial statements but is a reduction of the liability in the statement of net assets.

Bond repayments	460,000	
New KISTA lease	(172,197)	
KISTA lease payments	21,437	
	309,240	309,240

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:

Discount on bond issuance	(7,284)	
Accumulated sick leave-noncurrent portion	(75,026)	
Accrued interest on bonds	3,805	
Net decrease in expenditures	(78,505)	(78,505)

Change in net position of governmental activities \$ 557,959

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 18,181
Accounts receivable	16,347
Inventory	15,412
Total current assets	49,940
Noncurrent assets	
Capital assets	223,758
Less: accumulated depreciation	(171,780)
Total noncurrent assets	51,978
Total assets	101,918
LIABILITIES	
Current liabilities	
Accounts payable	418
Total current liabilities	418
NET POSITION	
Invested in capital assets, net of related debt	51,978
Unrestricted	49,522
Total net position	\$ 101,500

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
OPERATING REVENUES	
Lunchroom sales	\$ 119,314
Other revenue	<u>1,749</u>
Total operating revenues	<u>121,063</u>
 OPERATING EXPENSES	
Salaries and wages	270,773
Materials and supplies	169,044
Depreciation	4,734
Contract services	10,391
Miscellaneous	<u>109</u>
Total operating expenses	<u>455,051</u>
Operating income (loss)	<u>(333,988)</u>
 NON-OPERATING REVENUES (EXPENSES)	
Federal grants	239,623
Donated commodities	19,688
State grants	3,961
State on-behalf payments	53,252
Interest income	<u>85</u>
Total non-operating revenues (expenses)	<u>316,609</u>
Change in net position	(17,379)
Net position, July 1, 2012	<u>118,879</u>
Net position, June 30, 2013	<u><u>\$ 101,500</u></u>

See accompanying notes to financial statements

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

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 102,967
Other activities	1,749
Cash paid to/for:	
Employees	(217,521)
Supplies	(149,283)
Contract services	(10,391)
Miscellaneous	(109)
	(272,588)
Net cash provided (used) by operating activities	(272,588)
Cash flows from noncapital financing activities	
Transfers in (out)	-
Government grants	243,585
	243,585
Net cash provided (used) by noncapital financing activities	243,585
Cash flows from investing activities	
Purchase of fixed assets	
Receipt of interest income	85
	85
Net cash provided (used) by investing activities	85
Net increase (decrease) in cash and cash equivalents	(28,918)
Balances, beginning of year	47,099
	47,099
Balances, end of year	\$ 18,181

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>School Food Service Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (333,988)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	4,734
Donated commodities	19,688
State on-behalf payments	53,252
Change in assets and liabilities:	
Accounts receivable	(16,347)
Inventory	-
Accounts payable	73
	<u>73</u>
Net cash provided (used) by operating activities	\$ (272,588)
Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 19,688
On-behalf payments	53,252

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 101,462
Accounts receivable	<u>-</u>
Total assets	<u><u>\$ 101,462</u></u>
 LIABILITIES AND NET ASSETS	
Accounts payable	-
Due to student groups	<u>\$ 101,462</u>
Total liabilities	<u>101,462</u>
	<u><u>\$ -</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lyon County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Lyon County School District (District). The District 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 as 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 Lyon 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 District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Lyon County School District Finance Corporation – In 1990, the Lyon County, Kentucky Board of Education established the Lyon County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act, KRS 273, and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Lyon County Board of Education also comprise the Corporation’s Board of Directors.

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. Interfund activity is eliminated to avoid “doubling up” revenues and expenses.

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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the programs 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.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major 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 governmental funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Fund reports increases and decreases in total economic net worth.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost reimbursements funds first to finance such programs with remaining costs paid for with general revenues.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's major governmental funds:

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

Capital Projects 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 Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations).

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

The *Construction Fund* accounts for proceeds from sales of bonds and other revenue to be used for authorized construction. The Construction Fund is a major fund of the District.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs.

Proprietary Funds

Proprietary funds are used to account for ongoing activities which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The fund's principal operating revenues are food service charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA).

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District. The Fiduciary Funds are prepared under the economic resources measurement focus and the accrual basis of accounting.

Agency Funds

Agency funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The *Student Activity Funds* account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Accounting Procedures for Kentucky School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Modified Accrual Basis

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Current year property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions

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

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

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

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

Estimates

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

Interfund Activity

Flows of cash 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 after nonoperating revenues/expenses in proprietary funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. 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 at year-end is provided for at June 30, 2013. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Prepaid Expenditures

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. The Proprietary Fund inventory is recorded at the lower of cost, determined by first-in first-out (“FIFO”) method, or market value.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances.

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 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of real property for which there is no threshold. 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 except land 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>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Rolling stock	15 years
Other	10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, and contractually required pension contributions 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

Fund Balances

In the fund financial statements, governmental fund balances are classified as follows:

Non-spendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by the Board of Education's formal action through a resolution.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or Management. The Board adopted a resolution establishing the authority to assign funds.

Unassigned – All amounts not included in other spendable classifications.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed, assigned, and then unassigned fund balances.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

Subsequent Events

Subsequent events have been evaluated through November 13, 2013, which is the date the financial statements were available to be issued.

New GASB Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012 although the District elected to early implement Statement 62 in fiscal year 2013. The adoption of GASB 66 does not have any impact on the District's financial statements.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The District has implemented this statement in the year ended June 30, 2013. As a result, prior year "deferred charges" of \$67,241 have been expensed in the prior period adjustment explained in Note 17.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2013, the carrying amounts of the District's deposits were \$1,839,101 and the bank balances were \$2,215,093.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 1,719,458
Proprietary funds	18,181
Fiduciary funds	<u>101,462</u>
 Total	 <u><u>\$ 1,839,101</u></u>

Funds of the District are considered to be public funds and, therefore, their investment is limited by state statute to certain obligations of the United States or similar governmental agencies, cash instruments, and certain pooled investment funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, state statutes require the District's bank deposits to be collateralized. As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets not depreciated:				
Land	\$ 223,109	\$ -	\$ -	\$ 223,109
Construction in progress	872,704	4,007,953	-	4,880,657
Total nondepreciable historical cost	<u>1,095,813</u>	<u>4,007,953</u>	<u>-</u>	<u>5,103,766</u>
Capital assets depreciated:				
Land improvements	724,533	-	-	724,533
Buildings and improvements	9,855,374	5,121	-	9,860,495
Technology equipment	918,452	-	479,075	439,377
General equipment	347,686	20,102	195	367,593
Vehicles	1,273,916	81,318	142,145	1,213,089
Total depreciable historical cost	<u>13,119,961</u>	<u>106,541</u>	<u>621,415</u>	<u>12,605,087</u>
Less: accumulated depreciation				
Land improvements	702,261	18,262	-	720,523
Building and improvements	3,323,876	139,618	-	3,463,494
Technology equipment	833,547	31,007	478,927	385,627
General equipment	236,397	22,538	109	258,826
Vehicles	894,888	99,709	142,144	852,453
Total accumulated depreciation	<u>5,990,969</u>	<u>311,134</u>	<u>621,180</u>	<u>5,680,923</u>
Total depreciable historical cost - net	<u>7,128,992</u>	<u>(204,593)</u>	<u>235</u>	<u>6,924,164</u>
Governmental activities capital assets - net	<u>\$ 8,224,805</u>	<u>\$ 3,803,360</u>	<u>\$ 235</u>	<u>\$ 12,027,930</u>

Included in the additions to construction in progress is \$172,197 of buses. New KISTA leases were entered into during the fiscal year but the buses were not purchased until fiscal year 2014. They will be added as depreciable assets during fiscal year 2014.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – CAPITAL ASSETS, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

Instruction	\$ 166,180
Support services:	
Student	496
Instructional staff	4,938
District administration	7,249
School administration	1,447
Business	284
Plant operation and maintenance	29,519
Student transportation	100,738
Community service	283
	<u>283</u>
	<u>\$ 311,134</u>

Business-Type Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets depreciated:				
Buildings and improvements	\$ 59,229	\$ -	\$ -	\$ 59,229
Technology equipment	5,368	-	2,206	3,162
Food service equipment	161,368	-	-	161,368
	<u>225,965</u>	<u>-</u>	<u>2,206</u>	<u>223,759</u>
Total depreciable historical cost				
Less: accumulated depreciation				
Buildings and improvements	30,702	1,185	-	31,887
Technology equipment	4,137	375	2,206	2,306
Food service equipment	134,414	3,174	-	137,588
	<u>169,253</u>	<u>4,734</u>	<u>2,206</u>	<u>171,781</u>
Total accumulated depreciation				
Business-type activities capital assets - net	<u>\$ 56,712</u>	<u>\$ (4,734)</u>	<u>\$ -</u>	<u>\$ 51,978</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

On January 1, 2011, Lyon County Board of Education issued \$84,336 KISTA bonds for the purchase of a new bus. Delivery was not taken on the bus until fiscal year 2013; therefore, payments on this debt did not commence until fiscal year 2013.

On March 7, 2013, Lyon County Board of Education issued \$87,861 KISTA bonds for the purchase of a new bus.

The amounts shown in the accompanying financial statements as bond obligations represent the District's future obligations to make bond payments related to school building revenue bonds issued by the Lyon County School District Finance Corporation on behalf of the District for purposes of school facility construction. These bond payments also relate to project bonds issued by Kentucky Inter-local School Transportation Association (KISTA). These amounts are not reflected on the fund financial statements.

<u>Issue</u>	<u>Proceeds</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>
1998	\$ 975,000	2012	3.65%-4.00%
2001	1,225,000	2012	2.20%-3.95%
2002	3,900,000	2023	1.60%-4.40%
2003	1,500,000	2015	1.15%-3.85%
KISTA 2009R	36,835	2020	2.00%-3.60%
2010	275,000	2020	3.00%-3.50%
KISTA 2011	80,011	2021	1.00%-4.00%
2012	5,080,000	2032	1.00%-3.25%
KISTA 2012	84,336	2022	2.00%-2.625%
KISTA 2013	87,861	2023	2.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lyon County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the lease premises should become the property of the District. The District is obligated to maintain property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

The KISTA project bonds provided funds for construction projects of the District. The District leases and rents the projects from KISTA on an annual basis. The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to maintain the projects in good repair over the life of the lease terms.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

In 1998, 2001, 2003, 2010, 2011 and 2012 the District entered into “participation agreements” with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

Year	Lyon County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2013-2014	\$ 408,626	\$ 250,918	\$ 46,578	\$ 24,119	\$ 730,241
2014-2015	416,591	237,472	47,492	23,204	724,759
2015-2016	529,503	221,234	38,515	22,257	811,509
2016-2017	544,256	205,012	39,385	21,386	810,039
2017-2018	564,007	187,879	40,273	20,499	812,658
2018-2019	588,250	169,693	41,190	19,580	818,713
2019-2020	601,382	150,344	42,220	18,550	812,496
2020-2021	615,984	130,027	43,289	17,481	806,781
2021-2022	636,172	108,620	44,399	16,371	805,562
2022-2023	652,361	86,088	45,587	15,183	799,219
2023-2024	248,125	71,430	46,875	13,895	380,325
2024-2025	256,807	65,847	48,193	12,578	383,425
2025-2026	260,378	59,427	49,622	11,148	380,575
2026-2027	268,869	52,592	51,131	9,639	382,231
2027-2028	282,275	45,198	52,725	8,046	388,244
2028-2029	285,493	36,730	54,507	6,264	382,994
2029-2030	293,633	28,165	56,367	4,401	382,566
2030-2031	296,726	19,356	38,274	2,488	356,844
2031-2032	310,259	10,085	39,741	1,291	361,376
	<u>\$ 8,059,697</u>	<u>\$ 2,136,117</u>	<u>\$ 866,363</u>	<u>\$ 268,380</u>	<u>\$ 11,330,557</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The changes in outstanding debt are as follows:

<u>Bonds</u>	<u>Balance July 1, 2012</u>	<u>New Issues/ Adjustments</u>	<u>Debt Payments/ Adjustments</u>	<u>Balance June 30, 2013</u>
Series 2002	\$ 3,275,000	\$ -	\$ 190,000	\$ 3,085,000
Series 2003	525,000	-	180,000	345,000
Series 2010	255,000	-	10,000	245,000
Series 2012	5,080,000	-	80,000	5,000,000
Total series	<u>9,135,000</u>	<u>-</u>	<u>460,000</u>	<u>8,675,000</u>
 <u>Capital Leases</u>				
KISTA 2009R	28,942	-	3,447	25,495
KISTA 2011	71,358	-	8,817	62,541
KISTA 2012	-	84,336	9,173	75,163
KISTA 2013	-	87,861	-	87,861
Total capital leases	<u>100,300</u>	<u>172,197</u>	<u>21,437</u>	<u>251,060</u>
Totals	<u>\$ 9,235,300</u>	<u>\$ 172,197</u>	<u>\$ 481,437</u>	<u>\$ 8,926,060</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – FUND BALANCE REPORTING

Following is a summary of designations of Fund Balance at June 30, 2013:

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:					
Future construction	193,854	-	-	-	193,854
Capital outlay	-	-	345,484	-	345,484
SFCC escrow	-	-	-	-	-
Debt service	-	-	-	-	-
Committed:					
Sick leave	11,848	-	-	-	11,848
Site-based carryforward	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	1,125,684	-	-	-	1,125,684
	<u>\$ 1,331,386</u>	<u>\$ -</u>	<u>\$ 345,484</u>	<u>\$ -</u>	<u>\$ 1,676,870</u>

NOTE 6 – COMPENSATED ABSENCES

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

For governmental fund financial statements, the current portion of unpaid accrued sick leave and personal leave is the amount expected to be funded with current year's economic financial resources. These amounts are recorded in the account "accrued sick leave payable" in the General Fund. The amount estimated for expenditure for school year 2014 is \$-0-. Management has estimated that the long-term obligation will be approximately \$101,069.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – CONTINGENCIES

Grant Programs

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

NOTE 8 – PENSION PLANS

Kentucky Teachers' Retirement

Plan description - The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). Any benefit amendments must be authorized by the State Legislature.

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

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of the employees' salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of the employees' salaries for employees hired prior to July 1, 2008 and 14.105% for employees hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – PENSION PLANS, continued

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide 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 – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

The District's total payroll was \$4,837,345 for the year ended June 30, 2013. The payroll for employees covered under KTRS was \$3,351,611 for the year ended June 30, 2013. The Commonwealth contributed \$443,266, \$428,423, and \$438,925 to KTRS for the benefit of the participating employees for the years ended June 30, 2013, 2012, and 2011, respectively. The District's contributions to KTRS were equal to the required contributions of \$68,193, \$49,651, and \$49,691 for the years ended June 30, 2013, 2012, and 2011, respectively, which represent those employees covered by federal programs.

County Employees' Retirement System

Plan description – 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 Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under provision of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – PENSION PLANS, continued

Funding policy – Funding for the plan is provided through payroll withholdings of 5% for employees hired prior to September 1, 2008 and 6% for employees hired after September 1, 2008 and a District contribution of 19.55% of the employee's total compensation subject to contribution. The payroll for employees covered under CERS was \$1,191,219 for the year ended June 30, 2013. The District's contributions to CERS were equal to the required contributions of \$232,148, \$231,921 and \$201,934 for the years ended June 30, 2013, 2012 and 2011, respectively.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

NOTE 9 – ON-BEHALF PAYMENTS

The Commonwealth of Kentucky (the "State") is required to fund the matching contributions for the District's personnel participating in the Teachers' Retirement System of the State of Kentucky (see Note 8). The District also received on-behalf payments for certain fringe benefits from the State in the amount of \$897,237 for the fiscal year ending June 30, 2013. These payments, as well as the KTRS matching contributions of \$443,266, are included as equal amounts of revenues and expenditures in the accompanying Statement of Activities. Additionally, the District received on-behalf payments of \$37,428 for technology.

NOTE 10 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

NOTE 11 – RISK MANAGEMENT AND LITIGATION

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 worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards' Association. The District pays an annual premium to each fund 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 – RISK MANAGEMENT AND LITIGATION, continued

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial statements

NOTE 12 – DEFICIT OPERATING FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had a current year deficit of revenues over expenditures:

FSPK Fund	\$ (56,930)
Construction Fund	(3,761,156)
Debt Service Fund	(345)
Capital Outlay	(17,076)

NOTE 13 – 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.

The District has notified all terminated employees of available continuing insurance coverage as mandated by COBRA.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 14 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	\$ 12,703
Capital Outlay	General	Capital Funds request	81,574
Building	Debt Service	Bond payments	320,863
Building	General	Capital Funds request	29,017
Building	Construction	Capital Funds request	56,930
Capital Outlay	Construction	Capital Funds request	17,076
			<u>\$ 518,163</u>

NOTE 15 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2013.

NOTE 16 – PROPERTY TAXES

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business and personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2012 fiscal year was based, was \$633,188,275.

The tax rates for the school year ended June 30, 2013 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.425 per \$100 valuation.

Taxes are due on October 1 and become delinquent by January 1 following the October 1 levy date. Current general and PSC property tax collections for the year ended June 30, 2013 were 94.98% of the tax levy.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

NOTE 17 – EFFECT OF GASB 65 IMPLEMENTATION

During the year ended June 30, 2013, the following affected the beginning net position of the District:

Changes were made to reflect the effect of implementing GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This statement requires that bond issue costs be shown as current period outflows of resources (expenses). A prior period adjustment of \$67,241 is shown as an decrease in the beginning net position in the Statement of Activities.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 18 – SUBSEQUENT EVENTS

On June 1, 2013, Lyon County Board of Education issued \$685,000 School Building Revenue Bonds Series 2013 to finance improvements at Lyon County High School and Lyon County Elementary School. Delivery date of the bonds was July 2, 2013. At June 30, 2013, no bond funds had been received by Lyon County Board of Education.

SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Taxes				
Property	\$ 2,145,000	\$ 2,145,000	\$ 2,279,002	\$ 134,002
Motor vehicle	358,000	358,000	379,747	21,747
Utilities	470,000	470,000	455,799	(14,201)
Other	640,000	640,000	814,979	174,979
Earnings on investments	7,000	7,000	6,639	(361)
Other local revenues	40,000	40,000	33,866	(6,134)
Intergovernmental - state	1,749,328	1,808,400	1,833,822	25,422
Intergovernmental - federal	10,000	10,000	21,986	11,986
Other receipts	-	-	-	-
Total revenues	5,419,328	5,478,400	5,825,840	347,440
EXPENDITURES				
Current:				
Instruction	3,054,538	3,057,504	2,808,218	249,286
Support services:				
Student	249,977	249,977	243,645	6,332
Instructional staff	425,661	425,661	448,475	(22,814)
District administration	764,599	879,003	463,196	415,807
School administration	412,071	409,512	396,889	12,623
Business	155,791	155,791	176,741	(20,950)
Plant operation and maintenance	550,965	550,965	563,995	(13,030)
Student transportation	485,669	485,669	449,541	36,128
Facilities acquisition and construction	10,000	10,000	1,894	8,106
Debt service	-	-	26,097	(26,097)
Total expenditures	6,109,271	6,224,082	5,578,691	645,391
Excess (deficit) of revenues over (under) expenditures	(689,943)	(745,682)	247,149	992,831
Other financing sources (uses)				
Proceeds from sale of fixed assets	500	500	14,569	14,069
Operating transfers in	-	-	110,591	110,591
Operating transfers out	(20,895)	(20,895)	(12,703)	8,192
Total other financing sources (uses)	(20,395)	(20,395)	112,457	132,852
Net change in fund balance	(710,338)	(766,077)	359,606	1,125,683
Fund balance, July 1, 2012	710,338	766,077	971,780	205,703
Fund balance, June 30, 2013	\$ -	\$ -	\$ 1,331,386	\$ 1,331,386

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

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
REVENUES				
From local sources:				
Earnings on investments	\$ 30	\$ -	\$ 56	\$ 56
Other local revenues	35,582	-	54,947	54,947
Intergovernmental - state	317,596	299,470	326,191	26,721
Intergovernmental - federal	863,754	496,910	440,258	(56,652)
Total revenues	<u>1,216,962</u>	<u>796,380</u>	<u>821,452</u>	<u>25,072</u>
EXPENDITURES				
Current:				
Instruction	911,110	670,827	657,011	13,816
Support services:				
Student	153	3,791	27,602	(23,811)
Instructional staff	179,943	61,934	52,657	9,277
School administration	35,118	-	-	-
Business	31,104	20,000	23,536	(3,536)
Student transportation	792	-	-	-
Community services	78,827	64,514	73,349	(8,835)
Total expenditures	<u>1,237,047</u>	<u>821,066</u>	<u>834,155</u>	<u>(13,089)</u>
Excess (deficit) of revenues over (under) expenditures	<u>(20,085)</u>	<u>(24,686)</u>	<u>(12,703)</u>	<u>11,983</u>
Other financing sources (uses)				
Operating transfers in	<u>20,085</u>	<u>24,686</u>	<u>12,703</u>	<u>(11,983)</u>
Total other financing sources (uses)	<u>20,085</u>	<u>24,686</u>	<u>12,703</u>	<u>(11,983)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

NOTE 1 – BUDGETARY INFORMATION

The District's budgetary process accounts for transactions on a basis other than GAAP. Differences between the budgetary accounting methods and GAAP are not material.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General and Food Service Funds in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Reconciliation to the General Fund

Revenues - budgetary basis	\$ 5,825,840
On-behalf payments	<u>1,287,251</u>
Total revenues - modified cash basis	<u><u>\$ 7,113,091</u></u>
Expenditures - budgetary basis	\$ 5,578,691
On-behalf payments	<u>1,287,251</u>
Total expenditures - modified cash basis	<u><u>\$ 6,865,942</u></u>

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$13,089.

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

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-
Total assets and resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Spendable				
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
From local sources:				
Taxes				
Property	\$ 315,172	\$ -	\$ -	\$ 315,172
Motor vehicle	34,708	-	-	34,708
Earnings on investments	-	-	-	-
Intergovernmental - state	-	81,574	422,001	503,575
Total revenues	349,880	81,574	422,001	853,455
EXPENDITURES				
Building acquisition and construction	-	-	-	-
District administration	-	-	-	-
Debt service	-	-	743,209	743,209
Total expenditures	-	-	743,209	743,209
Excess (deficit) of revenues over (under) expenditures	349,880	81,574	(321,208)	110,246
Other financing sources (uses)				
Bond principal proceeds	-	-	-	-
Operating transfers in	-	-	320,863	320,863
Operating transfers out	(406,810)	(98,650)	-	(505,460)
Total other financing sources (uses)	(406,810)	(98,650)	320,863	(184,597)
Net change in fund balances	(56,930)	(17,076)	(345)	(74,351)
Fund balances, July 1, 2012	56,930	17,076	345	74,351
Fund balances, June 30, 2013	\$ -	-	-	-

**LYON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
 ALL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2013
Lyon County High School	\$ 42,143	\$ 152,407	\$ 154,636	\$ 39,914	\$ -	\$ -	\$ 39,914
Lyon County Middle School	32,035	71,450	73,353	30,132	-	-	30,132
Lyon County Elementary School	30,623	51,173	50,380	31,416	-	-	31,416
Totals	\$ 104,801	\$ 275,030	\$ 278,369	\$ 101,462	\$ -	\$ -	\$ 101,462

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - LYON COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance <u>July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balance <u>June 30, 2013</u>	Accounts <u>Receivable</u>	Accounts <u>Payable</u>	Due to Student Groups <u>June 30, 2013</u>
LYON COUNTY HIGH SCHOOL:							
General							
General	\$ 1,187	\$ 6,672	\$ 6,904	\$ 955	\$ -	\$ -	\$ 955
Drink Machine	1,423	1,054	1,209	1,268	-	-	1,268
Lounge Drink Machine	77	561	638	-	-	-	-
Student Inst Fees	-	2,620	2,620	-	-	-	-
Calculator Rental	584	275	237	622	-	-	622
Athletics							
General	25,076	58,212	71,640	11,648	-	-	11,648
Boys' Basketball	1,267	4,582	1,395	4,454	-	-	4,454
Girls' Basketball	3,435	2,200	1,812	3,823	-	-	3,823
Cheerleading	2,203	8,593	6,102	4,694	-	-	4,694
Fishing Team	-	1,925	1,488	437	-	-	437
Track Team	-	1,315	865	450	-	-	450
Archery Team	-	406	-	406	-	-	406
Clubs							
Art	448	-	357	91	-	-	91
Beta Club	674	865	1,246	293	-	-	293
History	22	-	-	22	-	-	22
FBLA	-	2,315	2,212	103	-	-	103
FCA	695	582	540	737	-	-	737
FCCLA	1,134	7,136	7,076	1,194	-	-	1,194
FFA	174	29,212	27,662	1,724	-	-	1,724
Ag Grant	500	2,316	2,537	279	-	-	279
Junior Sportsman's Club	-	-	-	-	-	-	-
Pep	4	440	337	107	-	-	107
TSA	782	3,056	2,827	1,011	-	-	1,011
STLP	183	1,036	1,184	35	-	-	35
Dart	-	-	-	-	-	-	-

(continued)

**LYON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS, continued
 SCHOOL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2013
LYON COUNTY HIGH SCHOOL, continued							
Departments							
Band	6	1,631	1,415	222	-	-	222
Consumer Ed	664	375	40	999	-	-	999
Library	153	-	153	-	-	-	-
Technology Ed	29	739	636	132	-	-	132
Yearbook	-	11,440	9,037	2,403	-	-	2,403
Junior Class	823	3,376	2,627	1,572	-	-	1,572
Senior Class	566	2,604	2,937	233	-	-	233
Money Market	34	19	53	-	-	-	-
	42,143	155,557	157,786	39,914	-	-	39,914
Less: Interfund Transfers	-	(3,150)	(3,150)	-	-	-	-
Totals	<u>\$ 42,143</u>	<u>\$ 152,407</u>	<u>\$ 154,636</u>	<u>\$ 39,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,914</u>

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

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Education Agencies	84.010	310000212	\$	140,332
Career and Technical Education - Basic Grants to States	84.048	462133212 462133213	621 <u>6,453</u>	7,074
Special Education Preschool Grants***	84.173**	380000211 380000212	4,140 <u>4,467</u>	8,607
Improving Teacher Quality State Grants	84.367	323000211 323000212	4,043 <u>40,425</u>	44,468
Twenty-First Century Community Community Learning Centers	84.287	340000210 340000211	24,738 <u>48,285</u>	73,023
Special Education - Grants to States***	84.027**	381000210 381000211 381000212	4,253 3,285 <u>154,236</u>	161,774
Race to the Top	84.413	396000211		3,818
Education Jobs Fund	84.410	EJOB0010		<u>1,162</u>
Total U. S. Department of Education				<u>440,258</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program	* 10.553	7760005-12 7760005-13	13,310 <u>50,631</u>	63,941
National School Lunch Program	* 10.555	7750002-12 7750002-13	35,223 140,460	
Noncash Assistance - Commodities (Note 4)		Fund 51	<u>19,688</u>	<u>195,371</u>
Total U.S. Department of Agriculture				<u>259,312</u>
Total Expenditures of Federal Awards				<u><u>\$ 699,570</u></u>

*Child Nutrition Cluster

**Special Education Cluster

***Major Program

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

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the 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. Pass-through entity identifying numbers are presented where available.

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NOTE 4 – COMMODITIES

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

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INDEPENDENT AUDITORS' 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

Kentucky State Committee
for School District Audits
Members of the Board of Education
Lyon County School District
Eddyville, 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 Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lyon County School District's basic financial statements and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lyon 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 Lyon County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lyon County School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs (item 2013-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon 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 matters of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

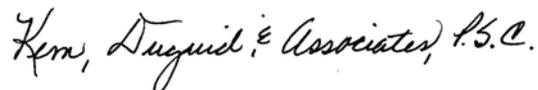
Lyon County School District's Response to Findings

The Lyon County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lyon 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.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 13, 2013

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



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

Kentucky State Committee
for School District Audits
Members of the Board of Education
Lyon County School District
Eddyville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lyon 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 Lyon County School District's major federal programs for the year ended June 30, 2013. Lyon County School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lyon 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyon 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 of Lyon County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

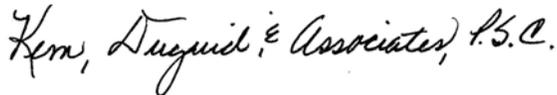
Management of Lyon County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lyon County School District's internal control 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 on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lyon 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 of any other purpose.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 13, 2013

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

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Lyon County School District.
2. One significant deficiency was disclosed during the audit of the financial statements. See Section B: 2013-01.
3. No instances of noncompliance material to the financial statements of Lyon County School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Lyon County School District.
5. The auditor's report on compliance for the major federal award programs for Lyon County School District expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>Program Title</u>	<u>CFDA Number</u>
Special Education Preschool	84.173
Special Education	84.027

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

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2013-01 Internal Controls

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

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

Effect – Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Response – It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

**LYON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no prior year findings to report for Lyon County School District.

MANAGEMENT COMMENTS FOR AUDIT

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



November 13, 2013

Members of the Board of Education
Lyon County School District
Eddyville, Kentucky

In planning and performing our audit of the financial statements of Lyon County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 13, 2013 on the financial statements of the Lyon County School District.

We will review the status of these comments during our next audit engagement. 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.

We performed a follow-up on the prior year findings with the status of these findings documented on page 67 of this report.

Respectfully,

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

**LYON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

LYON COUNTY MIDDLE SCHOOL

- I. **Condition** – Inventory Control Worksheet testing of a randomly chose sample revealed several instances of worksheet not completed correctly with beginning inventory, explanation of over and short discrepancies and no initials on form.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires use of specific forms (or reasonable facsimiles) and various procedures for certain activities.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – The person in charge of inventory control should review the Red Book and comply with its requirements regarding the proper procedures for using inventory control worksheets.

Response – The school will comply with the recommendation.

**LYON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

LYON COUNTY MIDDLE SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of school treasurer signing Multiple Receipt form as person remitting money.

Recommendation – The person remitting money and the school treasurer should not be the same person.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2013.

- II. **Condition** – Cash disbursements testing of a randomly chosen sample revealed three instances of Multiple Receipt Forms not being signed by students when money is collected by teachers/sponsors.

Recommendation – The Multiple Receipt Form should be used with the students signing the form when money is collected by teacher/sponsor.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2013.

LYON COUNTY HIGH SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of money collected by a teacher/sponsor not turned in timely to the school treasurer.

Recommendation – All money collected by a teacher/sponsor should be given to the school treasurer on the day collected.

Current Status – The finding was repeated for the fiscal year ending June 30, 2013.