

LYON COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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**LYON COUNTY SCHOOL DISTRICT
JUNE 30, 2014**

BOARD OF EDUCATION

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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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–12 and 47-50 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 and 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.

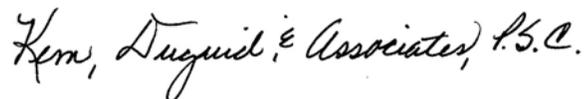
The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 14, 2014, 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 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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, 2014. 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 \$2,379,382, as compared with the beginning cash balance of \$1,839,101. The ending cash balance consisted of General Fund of \$1,819,748, Special Revenue Fund of \$116,314, Construction Fund of \$374,449, Food Service Fund of (\$22,398), and School Activity Funds of \$91,269.
- Total government-wide net position increased by \$522,561 (including a prior period adjustment of \$172,197) for the fiscal year ended June 30, 2014. Total long-term obligations had a net increase of \$199,132, while the unrestricted net assets increased \$114,881 and restricted assets increased \$296,339.
- The General Fund had \$7,460,001 in revenues, which primarily consisted of the state program (SEEK) funds, 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 \$7,113,091. There was no tax increase for the year with the rate being held at \$.425 per \$100 valuation. Excluding interfund transfers, there were \$7,099,766 in General Fund expenditures. This compares to \$6,865,942 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,502,325 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.
- During the fiscal year ended June 30, 2014, the District received revenues in the amount of \$383,273 were received due to settlement of litigation regarding the construction of the Lyon County Middle School.

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.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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.

- 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).

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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.

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 47.

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 \$5,287,639 as of June 30, 2014.

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, 2014**

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2014 and 2013:

Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current assets						
and other assets	\$ 2,395,390	\$ 1,903,768	\$ 17,236	\$ 49,940	\$ 2,412,626	\$ 1,953,708
Capital assets	12,367,835	12,027,930	47,318	51,978	12,415,153	12,079,908
Total assets	14,763,225	13,931,698	64,554	101,918	14,827,779	14,033,616
Current liabilities	312,666	240,991	1,213	418	313,879	241,409
Noncurrent obligations	9,226,261	9,027,129	-	-	9,226,261	9,027,129
Total liabilities	9,538,927	9,268,120	1,213	418	9,540,140	9,268,538
Net position						
Investment in capital assets, net of related debt	3,563,355	3,447,354	47,318	51,978	3,610,673	3,499,332
Restricted	490,193	193,854	-	-	490,193	193,854
Unrestricted	1,170,750	1,022,370	16,023	49,522	1,186,773	1,071,892
Total net position	\$ 5,224,298	\$ 4,663,578	\$ 63,341	\$ 101,500	\$ 5,287,639	\$ 4,765,078

Change in net position. The District’s governmental activities net position increased by \$560,720 including a prior period adjustment of \$(172,197), and business-type activities net position decreased \$38,159.

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, 2014**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2014 and 2013:

Changes in Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 2,168,120	\$ 2,053,700	\$ 266,015	\$ 259,311	\$ 2,434,135	\$ 2,313,011
Capital grants and contributions	384,674	503,575	-	-	384,674	503,575
Charges for services	-	-	110,019	119,314	110,019	119,314
General revenues:						
Property taxes	2,642,281	2,594,174	-	-	2,642,281	2,594,174
Other taxes	1,039,660	1,685,233	-	-	1,039,660	1,685,233
Investment earnings	2,045	6,695	23	85	2,068	6,780
State aid	2,420,978	1,855,808	43,000	57,213	2,463,978	1,913,021
Other	488,703	103,147	832	1,749	489,535	104,896
Total revenues	9,146,461	8,802,332	419,889	437,672	9,566,350	9,240,004
Expenses:						
Instruction	4,540,825	4,655,995	-	-	4,540,825	4,655,995
Student support services:	362,617	336,051	-	-	362,617	336,051
Instructional support	566,536	559,864	-	-	566,536	559,864
District administration	524,133	527,982	-	-	524,133	527,982
School administration	504,437	447,098	-	-	504,437	447,098
Business support	193,734	234,354	-	-	193,734	234,354
Plant operations	704,787	613,411	-	-	704,787	613,411
Student transportaion	632,441	503,338	-	-	632,441	503,338
Community services	67,836	73,632	-	-	67,836	73,632
Interest on long-term debt	296,946	291,348	-	-	296,946	291,348
Bond issuance costs	15,662	-	-	-	15,662	-
Other	3,590	1,300	-	-	3,590	1,300
Food service	-	-	458,048	455,051	458,048	455,051
Total expenses	8,413,544	8,244,373	458,048	455,051	8,871,592	8,699,424
Increase (Decrease) in net position	\$ 732,917	\$ 557,959	\$ (38,159)	\$ (17,379)	\$ 694,758	\$ 540,580

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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 \$2,177,265 an increase of \$500,395 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, 2014 and 2013.

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 District’s 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, 2014**

Following is a summary of fund balances for the fiscal years ended June 30, 2014 and 2013:

Governmental Funds Balances as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 1,853,361	\$ 1,331,386	\$ 521,975
Special Revenue Fund	-	-	-
Building Fund	-	-	-
Construction	323,904	345,484	(21,580)
Capital Outlay	-	-	-
Debt Service Fund	-	-	-
	<u>\$ 2,177,265</u>	<u>\$ 1,676,870</u>	<u>\$ 500,395</u>
Proprietary Funds			
Food Service Fund	<u>\$ 63,341</u>	<u>\$ 101,500</u>	<u>\$ (38,159)</u>
Fiduciary Funds			
School Activity Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 \$1,664,058, while total fund balance reached \$2,177,265. 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 23.44% of total General Fund expenditures, while total fund balance represents 26.10% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$521,975. Revenues and transfers totaling \$7,634,584, increased by \$396,333, while expenditures and transfers totaling \$7,112,609, increased by \$233,964.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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 2.00% contingency. The District adopted a General Fund budget with a contingency of 7.00%. 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 \$1,381,680 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, 2014, excluding interfund transfers, beginning balances, and on-behalf payments, were \$6,078,321; compared to the total budgeted revenues of \$5,454,388.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2014, excluding interfund transfers and on-behalf payments, were \$5,718,086; compared to the total budgeted expenditures of \$6,560,304.
- The fund balance at the end of the 2014 fiscal year for all Governmental Funds was \$2,177,265 compared to \$1,676,870 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. The State contributes to Fund 310.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2014, the District had \$12,415,153 invested in capital assets net of depreciation: historical costs totaled \$18,450,758 with accumulated depreciation totaling \$6,035,605. 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 \$782,814. Depreciation charged to expense during the year totaled \$274,220, 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, 2014**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2014 and 2013.

Net Capital Assets for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 223,109	\$ 223,109	\$ -	\$ -	\$ 223,109	\$ 223,109
Land improvements	2,597	4,010	-	-	2,597	4,010
Construction in progress	4,729,567	4,708,460	-	-	4,729,567	4,708,460
Building and improvements	6,919,258	6,397,001	26,158	27,342	6,945,416	6,424,343
Technology equipment	32,902	53,750	554	856	33,456	54,606
General equipment	91,868	108,767	-	-	91,868	108,767
Vehicles	368,534	360,636	-	-	368,534	360,636
Food service equipment	-	-	20,606	23,780	20,606	23,780
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 12,367,835</u>	<u>\$ 11,855,733</u>	<u>\$ 47,318</u>	<u>\$ 51,978</u>	<u>\$ 12,415,153</u>	<u>\$ 11,907,711</u>

Long-Term Debt – The District’s long-term general obligation bonds and KISTA leases outstanding at June 30, 2014 were \$9,218,940. 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 \$966,162 of the bonds leaving the District to pay \$8,252,778. The liability for compensated absences decreased from \$101,069 in the prior year to \$97,877 for the year ending June 30, 2014.

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. 405 or by mail at 217 Jenkins Road, Eddyville, KY 42038.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014**

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,310,511	\$ (22,398)	\$ 2,288,113
Accounts receivable:			
Taxes	57,472	-	57,472
Other	1,612	24,222	25,834
Intergovernmental - indirect federal	25,795	-	25,795
Inventory	-	15,412	15,412
Capital assets:			
Non-depreciable	4,952,676	-	4,952,676
Depreciable (net)	7,415,159	47,318	7,462,477
	<u>14,763,225</u>	<u>64,554</u>	<u>14,827,779</u>
Total assets			
LIABILITIES			
Accounts payable	79,136	1,213	80,349
Unearned revenue	138,989	-	138,989
Interest payable	94,541	-	94,541
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	503,617	-	503,617
Accrued compensated absences	-	-	-
Portion due or payable after one year:			
Bonds payable	8,624,767	-	8,624,767
Accrued compensated absences	97,877	-	97,877
	<u>9,538,927</u>	<u>1,213</u>	<u>9,540,140</u>
Total liabilities			
NET POSITION			
Invested in capital assets, net of related debt	3,563,355	47,318	3,610,673
Restricted for:			
Construction	490,193	-	490,193
Unrestricted	1,170,750	16,023	1,186,773
	<u>5,224,298</u>	<u>63,341</u>	<u>5,287,639</u>
Total net position			

See accompanying notes to financial statements

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

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
Governmental Activities:					
Current:					
Instruction	\$ 4,540,825	\$ -	\$ 1,542,020	\$ -	\$ (2,998,805)
Support services:					
Student	362,617	-	102,091	-	(260,526)
Instructional staff	566,536	-	133,644	-	(432,892)
District administration	524,133	-	72,327	-	(451,806)
School administration	504,437	-	108,711	-	(395,726)
Business	193,734	-	43,074	-	(150,660)
Plant operation and maintenance	704,787	-	49,314	-	(655,473)
Student transportation	632,441	-	54,961	-	(577,480)
Community service activities	67,836	-	61,978	-	(5,858)
Other	3,590	-	-	-	(3,590)
Interest on long-term debt	296,946	-	-	384,674	87,728
Bond issue costs	15,662	-	-	-	(15,662)
Total governmental activities	8,413,544	-	2,168,120	384,674	(5,860,750)
Business-Type Activities:					
Food service	458,048	110,019	266,015	-	(82,014)
Total business-type activities	458,048	110,019	266,015	-	(82,014)
Total activities	\$ 8,871,592	\$ 110,019	\$ 2,434,135	\$ 384,674	\$ (5,942,764)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net revenues (expenses)			\$ (5,860,750)	\$ (82,014)	\$ (5,942,764)
General Revenues					
Taxes:					
Property			2,642,281	-	2,642,281
Motor vehicle			422,391	-	422,391
Utilities			605,393	-	605,393
Other			11,876	-	11,876
Investment earnings			2,045	23	2,068
State aid			2,420,978	43,000	2,463,978
Gain (loss) on sale of fixed assets			23	-	23
Miscellaneous			488,680	832	489,512
Total general revenues			6,593,667	43,855	6,637,522
Change in net position			732,917	(38,159)	694,758
Net position, July 1, 2013			4,663,578	101,500	4,765,078
Prior period adjustment			(172,197)	-	(172,197)
Net position, July 1, 2013, restated			4,491,381	101,500	4,592,881
Net position, June 30, 2014			\$ 5,224,298	\$ 63,341	\$ 5,287,639

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,819,748	\$ 116,314	\$ 374,449	\$ -	\$ 2,310,511
Accounts receivable:					
Taxes	57,472	-	-	-	57,472
Other	1,612	-	-	-	1,612
Intergovernmental - indirect federal	-	25,795	-	-	25,795
Total assets	<u>\$ 1,878,832</u>	<u>\$ 142,109</u>	<u>\$ 374,449</u>	<u>\$ -</u>	<u>\$ 2,395,390</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 25,471	\$ 3,120	\$ 50,545	\$ -	\$ 79,136
Unearned revenue	-	138,989	-	-	138,989
Total liabilities	<u>25,471</u>	<u>142,109</u>	<u>50,545</u>	<u>-</u>	<u>218,125</u>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	166,289	-	323,904	-	490,193
Committed	11,848	-	-	-	11,848
Assigned	11,166	-	-	-	11,166
Unassigned	1,664,058	-	-	-	1,664,058
Total fund balances	<u>1,853,361</u>	<u>-</u>	<u>323,904</u>	<u>-</u>	<u>2,177,265</u>
Total liabilities and fund balances	<u>\$ 1,878,832</u>	<u>\$ 142,109</u>	<u>\$ 374,449</u>	<u>\$ -</u>	<u>\$ 2,395,390</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, 2014**

Total fund balance per fund financial statements \$ 2,177,265

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 \$18,226,999,
and the accumulated depreciation is \$5,859,164. 12,367,835

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	(8,819,444)	
KISTA lease obligations	(308,940)	
Interest payable on bonds	(94,541)	
Noncurrent portion of accumulated sick leave	<u>(97,877)</u>	<u>(9,320,802)</u>

Net position for governmental activities \$ 5,224,298

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, 2014**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 2,286,621	\$ -	\$ -	\$ 355,660	\$ 2,642,281
Motor vehicle	420,339	-	-	2,052	422,391
Utilities	605,393	-	-	-	605,393
Other	11,876	-	-	-	11,876
Earnings on investments	2,026	19	-	-	2,045
Other local revenues	428,095	60,585	-	-	488,680
Intergovernmental - state	3,679,416	308,368	-	465,000	4,452,784
Intergovernmental - federal	26,235	494,753	-	-	520,988
Total revenues	7,460,001	863,725	-	822,712	9,146,438
EXPENDITURES					
Current:					
Instruction	3,712,174	698,407	-	-	4,410,581
Support Services:					
Student	325,766	36,734	-	-	362,500
Instructional staff	513,713	50,719	-	-	564,432
District administration	520,079	-	-	-	520,079
School administration	503,464	-	-	-	503,464
Business	170,447	23,062	-	-	193,509
Plant operations and maintenance	691,908	-	-	-	691,908
Student transportation	623,318	-	-	-	623,318
Community service activities	-	67,646	-	-	67,646
Building acquisition and construction	-	-	679,945	-	679,945
Debt service	36,170	-	-	737,388	773,558
Bond issuance costs	2,727	-	12,935	-	15,662
Total expenditures	7,099,766	876,568	692,880	737,388	9,406,602
Excess (deficit) of revenues over (under) expenditures	360,235	(12,843)	(692,880)	85,324	(260,164)
Other financing sources (uses)					
Bond principal proceeds, net of discount	-	-	671,300	-	671,300
Capital lease proceeds	88,084	-	-	-	88,084
Proceeds from disposal of fixed assets	1,175	-	-	-	1,175
Operating transfers in	85,324	12,843	-	352,714	450,881
Operating transfers out	(12,843)	-	-	(438,038)	(450,881)
Total other financing sources (uses)	161,740	12,843	671,300	(85,324)	760,559
Net changes in fund balances	521,975	-	(21,580)	-	500,395
Fund balances, July 1, 2013	1,331,386	-	345,484	-	1,676,870
Fund balances, June 30, 2014	\$ 1,853,361	\$ -	\$ 323,904	\$ -	\$ 2,177,265

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, 2014**

Net change in fund balance - Total governmental funds \$ 500,395

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	782,814	
Depreciation expense	(269,560)	
Net capital outlay	513,254	513,254

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 (1,152)

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 proceeds	(685,000)	
Bond discount	13,700	
Bond repayments	450,000	
New KISTA lease	(88,084)	
KISTA lease payments	30,204	
	(279,180)	(279,180)

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	(7,571)	
Accumulated sick leave-noncurrent portion	3,192	
Accrued interest on bonds	3,979	
Net decrease in expenditures	(400)	(400)

Change in net position of governmental activities \$ 732,917

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ (22,398)
Accounts receivable	24,222
Inventory	15,412
Total current assets	17,236
Noncurrent assets	
Capital assets	223,759
Less: accumulated depreciation	(176,441)
Total noncurrent assets	47,318
Total assets	64,554
LIABILITIES	
Current liabilities	
Accounts payable	1,213
Total current liabilities	1,213
NET POSITION	
Invested in capital assets, net of related debt	47,318
Unrestricted	16,023
Total net position	\$ 63,341

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, 2014**

	School Food Service Fund
OPERATING REVENUES	
Lunchroom sales	\$ 110,019
Other revenue	832
	110,851
Total operating revenues	110,851
OPERATING EXPENSES	
Salaries and wages	263,200
Materials and supplies	175,265
Depreciation	4,661
Contract services	14,779
Miscellaneous	143
	458,048
Total operating expenses	458,048
Operating income (loss)	(347,197)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	246,040
Donated commodities	19,975
State grants	3,588
State on-behalf payments	39,412
Interest income	23
	309,038
Total non-operating revenues (expenses)	309,038
Change in net position	(38,159)
Net position, July 1, 2013	101,500
Net position, June 30, 2014	\$ 63,341

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>School Food Service Fund</u>
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 102,144
Other activities	832
Cash paid to/for:	
Employees	(223,788)
Supplies	(154,496)
Contract services	(14,779)
Miscellaneous	(143)
	<u>(290,230)</u>
 Cash flows from noncapital financing activities	
Transfers in (out)	-
Government grants	249,628
	<u>249,628</u>
 Cash flows from investing activities	
Receipt of interest income	23
	<u>23</u>
 Net increase (decrease) in cash and cash equivalents	(40,579)
 Balances, beginning of year	<u>18,181</u>
 Balances, end of year	<u><u>\$ (22,398)</u></u>

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>School Food Service Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (347,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	4,661
Donated commodities	19,975
State on-behalf payments	39,412
Change in assets and liabilities:	
Accounts receivable	(7,875)
Accounts payable	794
	<u>794</u>
Net cash provided (used) by operating activities	<u>\$ (290,230)</u>
Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 19,975
On-behalf payments	39,412

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 91,269</u>
Total assets	<u>91,269</u>
 LIABILITIES	
Due to student groups	<u>91,269</u>
Total liabilities	<u>91,269</u>
 NET POSITION	 <u><u>\$ -</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 resolved to authorize the establishment of 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, 2014**

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 reimbursement 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014**

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.

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 fiscal year-end.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Property taxes levied to finance fiscal year 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements, and donations 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 required 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.

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.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.425 per \$100 valuation for real property, \$.425 per \$100 valuation for tangible personal property, and \$.436 per \$100 valuation for motor vehicles.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Encumbrance Accounting

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, 2014. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and time deposits that are nonnegotiable, to be cash and cash equivalents, for governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statement of cash flows.

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.

Nonmonetary assistance is reported in the proprietary funds at the market value of the commodities received/used.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420.3.

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.

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>Estimated Lives for Depreciation</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

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 14, 2014, which is the date the financial statements were available to be issued.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New GASB Pronouncements

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 has made the determination that GASB 67 does not have any impact on the District's financial statements as the District participates in a multiple-employer plan (and is not the trustee).

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, 2014**

NOTE 2 – CASH AND CASH EQUIVALENTS

The District maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

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. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year end, the carrying amounts of the District's deposits were \$2,379,382 and the bank balances were \$2,863,967. Of the District's bank balance, \$250,000 was covered by Federal Deposit Insurance with the remaining balance of \$2,613,967 covered by collateral agreements with securities.

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

Governmental funds	\$ 2,310,511
Proprietary funds	(22,398)
Fiduciary funds	<u>91,269</u>
Total	<u><u>\$ 2,379,382</u></u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental Activities	Balance July 1, 2013 (Restated)	Additions	Deductions	Balance June 30, 2014
Capital assets not depreciated:				
Land	\$ 223,109	\$ -	\$ -	\$ 223,109
Construction in progress	4,708,460	66,421	45,314	4,729,567
Total nondepreciable historical cost	<u>4,931,569</u>	<u>66,421</u>	<u>45,314</u>	<u>4,952,676</u>
Capital assets depreciated:				
Land improvements	724,533	-	-	724,533
Buildings and improvements	9,860,495	651,514	5,164	10,506,845
Technology equipment	439,377	-	54,912	384,465
General equipment	367,593	6,730	23,545	350,778
Vehicles	1,213,089	103,463	8,850	1,307,702
Total depreciable historical cost	<u>12,605,087</u>	<u>761,707</u>	<u>92,471</u>	<u>13,274,323</u>
Less: accumulated depreciation				
Land improvements	720,523	1,413	-	721,936
Building and improvements	3,463,494	129,257	5,164	3,587,587
Technology equipment	385,627	20,848	54,912	351,563
General equipment	258,826	22,476	22,392	258,910
Vehicles	852,453	95,566	8,851	939,168
Total accumulated depreciation	<u>5,680,923</u>	<u>269,560</u>	<u>91,319</u>	<u>5,859,164</u>
Total depreciable historical cost - net	<u>6,924,164</u>	<u>492,147</u>	<u>1,152</u>	<u>7,415,159</u>
Governmental activities capital assets - net	<u>\$ 11,855,733</u>	<u>\$ 558,568</u>	<u>\$ 46,466</u>	<u>\$ 12,367,835</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – CAPITAL ASSETS, continued

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

Governmental Activities

Instruction	\$ 133,436
Support services:	
Student	117
Instructional staff	2,104
District administration	4,054
School administration	973
Business	225
Plant operation and maintenance	33,980
Student transportation	94,481
Community service	190
	<u>190</u>
	<u>\$ 269,560</u>

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Business-Type Activities				
Capital assets depreciated:				
Buildings and improvements	\$ 59,229	\$ -	\$ -	\$ 59,229
Technology equipment	3,162	-	-	3,162
Food service equipment	161,368	-	-	161,368
	<u>223,759</u>	<u>-</u>	<u>-</u>	<u>223,759</u>
Total depreciable historical cost				
	<u>223,759</u>	<u>-</u>	<u>-</u>	<u>223,759</u>
Less: accumulated depreciation				
Buildings and improvements	31,887	1,184	-	33,071
Technology equipment	2,306	302	-	2,608
Food service equipment	137,588	3,174	-	140,762
	<u>171,781</u>	<u>4,660</u>	<u>-</u>	<u>176,441</u>
Total accumulated depreciation				
	<u>171,781</u>	<u>4,660</u>	<u>-</u>	<u>176,441</u>
Business-type activities capital assets - net	<u>\$ 51,978</u>	<u>\$ (4,660)</u>	<u>\$ -</u>	<u>\$ 47,318</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

On March 6, 2014, Lyon County Board of Education issued \$88,084 KISTA bonds for the purchase of a new bus.

On July 2, 2013, Lyon County Board of Education issued \$685,000 School Building Revenue Bonds Series 2013 to finance roof improvements at Lyon County High and Elementary Schools.

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>
2002	3,900,000	2023	1.60%-4.40%
2003	1,500,000	2015	1.15%-3.85%
KISTA 2009	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	.65%-3.30%
KISTA 2012	84,336	2022	2.00%-2.625%
KISTA 2013	87,861	2023	2.00%
2013	685,000	2033	1.70% -4.00%
KISTA 2014	88,084	2024	2.00%-3.00%

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, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

In 2002, 2003, 2010, 2011, 2012 and 2013 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, 2014, for debt service (principal and interest) are as follows:

Year	Lyon County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 449,859	\$ 254,755	\$ 53,758	\$ 27,474	\$ 785,846
2016	557,858	237,949	44,886	26,421	867,114
2017	576,123	221,215	45,864	25,443	868,645
2018	595,924	203,517	46,863	24,445	870,749
2019	615,214	184,763	47,893	23,413	871,283
2020-2024	2,912,071	613,553	257,627	98,903	3,882,154
2025-2029	1,478,356	306,958	296,644	59,889	2,141,847
2030-2034	1,067,373	77,811	172,627	12,119	1,329,930
	<u>\$ 8,252,778</u>	<u>\$ 2,100,521</u>	<u>\$ 966,162</u>	<u>\$ 298,107</u>	<u>\$ 11,617,568</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The changes in outstanding debt are as follows:

<u>Bonds</u>	<u>Balance July 1, 2013</u>	<u>New Issues/ Adjustments</u>	<u>Debt Payments/ Adjustments</u>	<u>Balance June 30, 2014</u>
Series 2002	\$ 3,085,000	\$ -	\$ 180,000	\$ 2,905,000
Series 2003	345,000	-	170,000	175,000
Series 2010	245,000	-	10,000	235,000
Series 2012	5,000,000	-	65,000	4,935,000
Series 2013	-	685,000	25,000	660,000
Total series	<u>8,675,000</u>	<u>685,000</u>	<u>450,000</u>	<u>8,910,000</u>
<u>Capital Leases</u>				
KISTA 2009R	25,495	-	3,530	21,965
KISTA 2011	62,541	-	7,546	54,995
KISTA 2012	75,163	-	9,497	65,666
KISTA 2013	87,861	-	9,631	78,230
KISTA 2014	-	88,084	-	88,084
Total capital leases	<u>251,060</u>	<u>88,084</u>	<u>30,204</u>	<u>308,940</u>
Discount on bonds	<u>(84,427)</u>	<u>(13,700)</u>	<u>(7,571)</u>	<u>(90,556)</u>
Totals	<u>\$ 8,841,633</u>	<u>\$ 759,384</u>	<u>\$ 472,633</u>	<u>\$ 9,128,384</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – FUND BALANCE REPORTING

Following is a summary of designations of Fund Balance at June 30, 2014:

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:					
Future construction	166,289	-	-	-	166,289
Capital outlay	-	-	323,904	-	323,904
Committed:					
Sick leave	11,848	-	-	-	11,848
Assigned					
Site-based carryforward	11,166	-	-	-	11,166
Unassigned	1,664,058	-	-	-	1,664,058
	<u>\$ 1,853,361</u>	<u>\$ -</u>	<u>\$ 323,904</u>	<u>\$ -</u>	<u>\$ 2,177,265</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 2015 is \$-0-. Management has estimated that the long-term obligation will be approximately \$97,877.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – CONTINGENCIES AND COMMITMENTS

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.

KSBIT

The District has been notified by the Kentucky School Board Insurance Trust of a \$43,649 liability for workers compensation losses incurred by the Trust. The District made a 25% down payment in the amount of \$10,912 in August 2014. The District chose to pay the remaining liability of \$32,737 in six installments beginning August 31, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020.

NOTE 8 – PENSION PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS) and the County Employee's Retirement System (CERS). These are cost-sharing, multiple-employer defined benefit plans. 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). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District. Any benefit amendments of KTRS must be authorized by the State Legislature. The Board of Trustees of the Kentucky Retirement System administers CERS and, under provision of Kentucky Revised Statute Section 61.645, has the authority to establish and amend benefits.

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/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – PENSION PLANS, continued

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of the employees' salaries to KTRS and the Commonwealth is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program is required to pay the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute 6% of their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$4,939,073. The payroll for employees covered under KTRS was \$3,641,030 and for CERS was \$1,175,660.

The contribution requirement for CERS for the year ended June 30, 2014 was \$283,077 which consisted of \$222,077 from the District and \$61,000 from the employees. The Commonwealth contributed \$450,140 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$96,911, which represents \$47,136 for those employees covered by federal programs and \$49,775 for all other KTRS employees.

The three year trend information for the District's contribution requirement to KTRS and CERS is as follows:

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2014	\$ 318,988	100%
6/30/2013	300,341	100%
6/30/2012	281,572	100%

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – PENSION PLANS, continued

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. The following table presents certain information regarding the plans' status as of the whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2013. (The actuarial reports for the year ended June 30, 2014 are not available.)

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL
KTRS	\$ 14,962,758	\$ 28,817,232	\$ 13,854,474
CERS	7,438,785	12,503,081	5,064,295

	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
KTRS	51.90%	\$ 3,480,066	398.10%
CERS	59.50%	2,697,950	187.71%

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

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, three percent (3%) 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 – ON-BEHALF PAYMENTS

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contribution to Kentucky Teachers' Retirement System	\$ 450,140
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	954,271
Technology	16,681
Debt Service	<u>81,233</u>
	<u>\$ 1,502,325</u>

The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District. The total of these payments, has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

Governmental activities:	
General Fund	\$ 1,381,680
Debt Service Fund	81,233
Business-type activities:	
Food Service Fund	<u>39,412</u>
	<u>\$ 1,502,325</u>

NOTE 10 – INSURANCE AND RELATED ACTIVITES

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, 2014**

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 fund had a current year deficit of revenues over expenditures:

Construction Fund	\$ (21,580)
-------------------	-------------

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, 2014**

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	\$ 12,843
Capital Outlay	General	Capital Funds request	80,326
Building	Debt Service	Bond payments	352,714
Building	General	Capital Funds request	4,998
			<u>\$ 450,881</u>

NOTE 15 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The beginning balance of net position for Governmental Activities is reduced by \$172,197 to correct an error in beginning balances for fixed assets.

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Taxes				
Property	\$ 2,250,000	\$ 2,250,000	\$ 2,286,621	\$ 36,621
Motor vehicle	340,000	340,000	420,339	80,339
Utilities	450,000	450,000	605,393	155,393
Other	625,000	625,000	11,876	(613,124)
Earnings on investments	7,000	7,000	2,026	(4,974)
Other local revenues	15,000	15,000	428,095	413,095
Intergovernmental - state	1,757,388	1,757,388	2,297,736	540,348
Intergovernmental - federal	10,000	10,000	26,235	16,235
Total revenues	5,454,388	5,454,388	6,078,321	623,933
EXPENDITURES				
Current:				
Instruction	2,931,028	2,931,959	2,810,042	121,917
Support services:				
Student	283,466	283,466	257,331	26,135
Instructional staff	442,819	442,819	426,538	16,281
District administration	1,066,722	1,053,943	431,071	622,872
School administration	402,328	402,328	394,753	7,575
Business	146,007	146,007	148,503	(2,496)
Plant operation and maintenance	630,575	630,575	642,594	(12,019)
Student transportation	659,207	659,207	568,357	90,850
Facilities acquisition and construction	10,000	10,000	-	10,000
Debt service	-	-	36,170	(36,170)
Bond issuance costs	-	-	2,727	(2,727)
Total expenditures	6,572,152	6,560,304	5,718,086	842,218
Excess (deficit) of revenues over (under) expenditures	(1,117,764)	(1,105,916)	360,235	1,466,151
Other financing sources (uses)				
Proceeds from sale of fixed assets	500	500	1,175	675
Capital lease proceeds	-	-	88,084	88,084
Operating transfers in	-	-	85,324	85,324
Operating transfers out	(12,703)	(12,703)	(12,843)	(140)
Total other financing sources (uses)	(12,203)	(12,203)	161,740	173,943
Net change in fund balance	(1,129,967)	(1,118,119)	521,975	1,640,094
Fund balance, July 1, 2013	1,129,967	1,118,119	1,331,386	213,267
Fund balance, June 30, 2014	\$ -	\$ -	\$ 1,853,361	\$ 1,853,361

**LYON COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 19	\$ 19
Other local revenues	-	-	60,585	60,585
Intergovernmental - state	322,166	322,463	308,368	(14,095)
Intergovernmental - federal	477,105	489,087	494,753	5,666
Total revenues	<u>799,271</u>	<u>811,550</u>	<u>863,725</u>	<u>52,175</u>
EXPENDITURES				
Current:				
Instruction	676,686	697,973	698,407	(434)
Support services:				
Student	-	5,275	36,734	(31,459)
Instructional staff	43,513	55,134	50,719	4,415
Business	20,000	20,000	23,062	(3,062)
Community services	71,775	72,041	67,646	4,395
Total expenditures	<u>811,974</u>	<u>850,423</u>	<u>876,568</u>	<u>(26,145)</u>
Excess (deficit) of revenues over (under) expenditures	<u>(12,703)</u>	<u>(38,873)</u>	<u>(12,843)</u>	<u>26,030</u>
Other financing sources (uses)				
Operating transfers in	<u>12,703</u>	<u>38,873</u>	<u>12,843</u>	<u>(26,030)</u>
Total other financing sources (uses)	<u>12,703</u>	<u>38,873</u>	<u>12,843</u>	<u>(26,030)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONSTRUCTION FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	-	-	-
Intergovernmental - state	-	-	-	-
Intergovernmental - federal	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Current:				
Building acquisition and construction	-	5,642,995	679,945	4,963,050
Bond issuance costs	-	-	12,935	(12,935)
Total expenditures	<u>-</u>	<u>5,642,995</u>	<u>692,880</u>	<u>4,963,050</u>
Excess (deficit) of revenues over (under) expenditures	<u>-</u>	<u>(5,642,995)</u>	<u>(692,880)</u>	<u>4,950,115</u>
Other financing sources (uses)				
Bond principal proceeds	-	5,642,995	671,300	(4,971,695)
Total other financing sources (uses)	<u>-</u>	<u>5,642,995</u>	<u>671,300</u>	<u>(4,971,695)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(21,580)</u>	<u>(21,580)</u>
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>345,484</u>	<u>345,484</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,904</u>	<u>\$ 323,904</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

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	\$ 6,078,321
On-behalf payments	<u>1,381,680</u>
Total revenues - modified cash basis	<u>\$ 7,460,001</u>
Expenditures - budgetary basis	\$ 5,718,086
On-behalf payments	<u>1,381,680</u>
Total expenditures - modified cash basis	<u>\$ 7,099,766</u>

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$26,145.

**LYON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

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

**LYON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
From local sources:				
Taxes				
Property	\$ 355,660	\$ -	\$ -	\$ 355,660
Motor vehicle	2,052	-	-	2,052
Intergovernmental - state	-	80,326	384,674	465,000
Total revenues	<u>357,712</u>	<u>80,326</u>	<u>384,674</u>	<u>822,712</u>
EXPENDITURES				
Debt service	-	-	737,388	737,388
Total expenditures	<u>-</u>	<u>-</u>	<u>737,388</u>	<u>737,388</u>
Excess (deficit) of revenues over (under) expenditures	<u>357,712</u>	<u>80,326</u>	<u>(352,714)</u>	<u>85,324</u>
Other financing sources (uses)				
Operating transfers in	-	-	352,714	352,714
Operating transfers out	(357,712)	(80,326)	-	(438,038)
Total other financing sources (uses)	<u>(357,712)</u>	<u>(80,326)</u>	<u>352,714</u>	<u>(85,324)</u>
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2013	-	-	-	-
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LYON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
 ALL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Cash Balance</u> July 1, 2013	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance</u> June 30, 2014	<u>Accounts</u> <u>Receivable</u>	<u>Accounts</u> <u>Payable</u>	<u>Fund Balance</u> June 30, 2014
Lyon County High School	\$ 39,914	\$ 145,437	\$ 151,393	\$ 33,959	\$ -	\$ -	\$ 33,959
Lyon County Middle School	30,132	42,281	40,254	32,159	-	-	32,159
Lyon County Elementary School	31,416	45,297	51,562	25,151	-	-	25,151
Totals	<u>\$ 101,462</u>	<u>\$ 233,015</u>	<u>\$ 243,209</u>	<u>\$ 91,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,269</u>

**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, 2014**

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
LYON COUNTY HIGH SCHOOL:							
General							
General	\$ 955	\$ 8,497	\$ 8,752	\$ 700	\$ -	\$ -	\$ 700
Drink Machine	1,268	262	1,530	-	-	-	-
Lounge Drink Machine	-	535	535	-	-	-	-
Student Isn't Fees	-	2,425	2,425	-	-	-	-
Calculator Rental	622	-	-	622	-	-	622
Book Rentals	-	767	767	-	-	-	-
Athletics							
General	11,648	14,103	22,334	3,417	-	-	3,417
Concessions	-	10,004	8,704	1,300	-	-	1,300
Boys' Basketball Camp	4,454	3,404	6,070	1,788	-	-	1,788
Boys' Basketball	-	8,647	5,052	3,595	-	-	3,595
Girls' Basketball Camp	3,823	2,049	1,752	4,120	-	-	4,120
Girls' Basketball	-	9,452	6,437	3,015	-	-	3,015
Cheerleading	4,694	5,636	9,816	514	-	-	514
Fishing Team	437	1,930	220	2,147	-	-	2,147
Track Team	450	609	1,059	-	-	-	-
Cross Country	-	483	483	-	-	-	-
Archery Team	406	-	-	406	-	-	406
Golf	-	2,554	2,554	-	-	-	-
Tennis	-	2,084	1,888	196	-	-	196
Boys' Soccer	-	3,532	2,539	993	-	-	993
Girls' Soccer	-	1,951	1,951	-	-	-	-
Baseball	-	1,757	1,143	614	-	-	614
Softball	-	2,204	2,204	-	-	-	-

(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, 2014**

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2014
LYON COUNTY HIGH SCHOOL, continued							
Clubs							
Art	91	-	-	91	-	-	91
Beta Club	293	780	806	267	-	-	267
History	22	-	-	22	-	-	22
FBLA	103	4,450	3,853	700	-	-	700
FCA	737	240	272	705	-	-	705
FCCLA	1,194	11,608	12,802	-	-	-	-
FFA	1,724	25,165	26,217	672	-	-	672
Ag Grant	279	-	279	-	-	-	-
Pep	107	215	294	28	-	-	28
Young Democrats	-	150	-	150	-	-	150
TSA	1,011	6,867	6,169	1,709	-	-	1,709
STLP	35	1,141	1,176	-	-	-	-
Dart	-	593	281	312	-	-	312
Departments							
Band	222	498	624	96	-	-	96
Consumer Ed	999	252	488	763	-	-	763
Technology Ed	132	928	888	172	-	-	172
Yearbook	2,403	10,450	8,715	4,138	-	-	4,138
Junior Class	1,572	4,576	5,513	635	-	-	635
Senior Class	233	2,424	2,586	72	-	-	72
	39,914	153,222	159,178	33,959	-	-	33,959
Less: Interfund Transfers	-	(7,785)	(7,785)	-	-	-	-
Totals	<u>\$ 39,914</u>	<u>\$ 145,437</u>	<u>\$ 151,393</u>	<u>\$ 33,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,959</u>

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

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	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	\$ 30,675	
		310000213	<u>148,272</u>	\$ 178,947
Career and Technical Education - Basic Grants to States	84.048	462133213		8,024
Special Education Preschool Grants	84.173**	380000212	6,329	
		380000213	<u>6,014</u>	12,343
Rural and Low Income School Program	84.358	314000213		9,122
Improving Teacher Quality State Grants	84.367	323000212	3,638	
		323000213	<u>39,390</u>	43,028
Twenty-First Century Community Community Learning Centers	84.287	340000211	25,220	
		340000212	<u>56,723</u>	81,943
Special Education - Grants to States	84.027**	381000212	14,449	
		381000213	<u>144,077</u>	158,526
Race to the Top	84.413	396000211		<u>2,820</u>
Total U. S. Department of Education				<u>494,753</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program	* 10.553***	7760005-13	14,045	
		7760005-14	<u>47,107</u>	61,152
National School Lunch Program	* 10.555***	7750002-13	42,433	
		7750002-14	142,455	
Noncash Assistance - Commodities (Note 4)		Fund 51	<u>19,975</u>	<u>204,863</u>
Total U.S. Department of Agriculture				<u>266,015</u>
Total Expenditures of Federal Awards				<u>\$ 760,768</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, 2014**

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, 2014. 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.

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



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, 2014, 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 14, 2014.

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 that we consider to be a significant deficiency (item 2014-01).

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*.

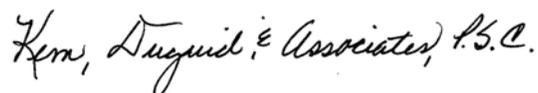
Lyon County School District's Response to Findings

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 14, 2014

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, 2014. 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, 2014.

Report on Internal Control over Compliance

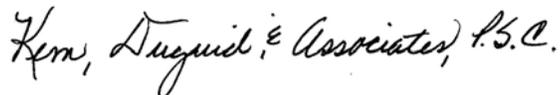
Management of Lyon County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lyon County School District's internal control 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 14, 2014

**LYON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified 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: 2014-01.
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 unmodified 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>
School Breakfast Program	10.553
National School Lunch Program	10.555

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

2014-01 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, 2014**

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 YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

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 14, 2014

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, 2014, 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.

During our audit, we did not become aware of any matters in fiscal year 2014 that are considered reportable management letter comments regarding the strengthening of internal control and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated November 14, 2014 on the financial statements of the Lyon County School District.

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.

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

Certified Public Accountants
Hopkinsville, Kentucky

**LYON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

None

**LYON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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.

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.

Current Status – Audit work revealed that the Inventory Control Worksheet was not used during fiscal year ending June 30, 2014. The finding was repeated for the fiscal year ending June 30, 2014.

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 years ending June 30, 2013 and 2014.