

**LEE COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Lee County Board of Education and
State Committee for School District Audits
Beattyville, 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 Lee County School District (District) as of and for the year ended June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. 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 the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note O to the financial statements, in 2015, the District adopted new accounting guidance, GASB *Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 additional supplementary information 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 additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015, on our consideration of the 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 the District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 10, 2015

LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

As management of the Lee County School 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, 2015. Please consider the information presented here in conjunction with the district’s financial statements which follow.

FINANCIAL HIGHLIGHTS

- During the year, the district’s revenue generated from taxes and other local, state and federal sources totaled \$14,223,596. This figure includes On-Behalf Payments of \$1,699,037 representing payments made by KDE “on-behalf” of the district for employee health insurance, life insurance, administration fees, Kentucky Teachers’ Retirement and technology and by the School Facilities Construction Commission (SFCC) for bond principal & interest payments. (These funds are not actually received/expended by the district.) This also includes inter-fund transfers of \$499,710. Expenditures were \$11,935,903.
- The General Fund had a beginning balance of \$459,151 for the FY2015 year. Receipts for the year totaled \$7,641,672 and expenditures totaled \$5,938,459 (both exclusive of on-behalf payments). Fund 1 ended the year with a fund balance of \$629,150 which is \$170,000 above last year’s ending balance.
- General Fund revenue primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes.
- School Building Revenue Bonds of \$2,350,000 and Qualified Zone Academy Bonds (QZAB) of \$500,000 were issued by the District for the renovation of Southside Elementary School. The renovation allows Beattyville Elementary and Southside Elementary to be merged into one elementary school, Lee County Elementary. Student enrollment for Beattyville Elementary and Southside Elementary at the end of 2014 was 490 students combined. Enrollment for both schools at the end of 2015 was 458.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental and proprietary funds. The proprietary funds are made up of the food service operations. All other activities of the district are included in the governmental funds.

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.

Supplementary Information: The financial statements include notes that explain some of the information in the statements and provide more detailed data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. The district's total in net position for the year ending June 30, 2015, is \$2,540,659.

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

Net Position:

The District's net position is a reflection of all 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

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

assets. The difference between the district’s assets and liabilities is its net position. The district’s net position is reflected in Table 1 below:

Table 1

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	
Assets							
Current and Other Assets	\$ 865,927.00	\$ 3,440,581.00	\$ 114,161.00	\$ 157,193.00	\$ 980,088.00	\$ 3,597,774.00	267.087%
Capital Assets (Net of Depreciation)	\$ 9,064,098.00	\$ 9,577,378.00	\$ 20,935.00	\$ 15,276.00	\$ 9,085,033.00	\$ 9,592,654.00	5.587%
Total Assets	\$ 9,930,025.00	\$13,017,959.00	\$ 135,096.00	\$ 172,469.00	\$10,065,121.00	\$13,190,428.00	31.051%
Deferred Outflows of Resources	\$ 1,156.00	\$ 254,443.00	\$ -	\$ 8,057.00	\$ 1,156.00	\$ 262,500.00	31.051%
Liabilities:							
Current Liabilities	\$ 353,678.00	\$ 672,607.00	\$ -	\$ -	\$ 353,678.00	\$ 672,607.00	90.175%
Non-Current Liabilities	\$ 5,086,730.00	\$ 9,901,727.00	\$ -	\$ 96,934.00	\$ 5,086,730.00	\$ 9,998,661.00	96.564%
Total Liabilities	\$ 5,440,408.00	\$10,574,334.00	\$ -	\$ 96,934.00	\$ 5,440,409.00	\$10,671,268.00	96.148%
Deferred Inflows of Resources	\$ -	\$ 230,200.00	\$ -	\$ 10,800.00	\$ -	\$ 241,000.00	#DIV/0!
Net Position:							
Invested in Capital Assets							
Net of Debt	\$ 4,478,774.00	\$ 2,427,213.00	\$ 20,935.00	\$ 15,276.00	\$ 4,499,709.00	\$ 2,442,489.00	-45.719%
Restricted	\$ 168,769.00	\$ 2,317,574.00	\$ 114,161.00	\$ 57,516.00	\$ 282,930.00	\$ 2,375,090.00	739.462%
Unreserved Fund Balance	\$ (156,770.00)	\$ (2,276,919.00)	\$ -	\$ -	\$ (156,770.00)	\$ (2,276,919.00)	1352.395%
Total Net Position	\$ 4,490,773.00	\$ 2,467,868.00	\$ 135,096.00	\$ 72,792.00	\$ 4,625,869.00	\$ 2,540,659.00	-45.077%

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

Table 2 below reflects the operations of the governmental activities and the business-type activities of the district.

**Table
2**

Change in Net Position							
	Governmental Activities		Business-Type Activities		Total School District		Total
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014-2015</u>
Revenues:							
Charges for Services	60,593	39,532	38,807	31,159	99,401	70,691	-28.883%
Operating Grants and Contributions	1,790,538	4,388,480	798,602	803,892	2,589,140	5,192,372	100.544%
Capital Grants and Contributions	350,642	348,300	0	0	350,642	348,300	-0.668%
General Revenues	7,336,708	6,016,856	-43,756	-43,124	7,292,952	5,973,732	-18.089%
Total Revenue	9,538,481	10,793,168	793,653	791,927	10,332,134	11,585,095	12.127%
Expenses:							
Instruction	4,400,372	5,889,860	0	0	4,400,372	5,889,860	33.849%
Student	561,595	550,671	0	0	561,595	550,671	-1.945%
Instructional Staff	644,256	582,400	0	0	644,256	582,400	-9.601%
District Administration	466,338	476,636	0	0	466,338	476,636	2.208%
School Administration	691,308	644,764	0	0	691,308	644,764	-6.733%
Business	364,149	404,153	0	0	364,149	404,153	10.986%
Plant Operation and Maintenance	660,067	722,929	0	0	660,067	722,929	9.524%
Student Transportation	633,804	592,891	0	0	633,804	592,891	-6.455%
Building Improvements	187,905	0	0	0	187,905	0	-100.000%
Other Instructional	0	0	0	0	0	0	0.000%
Community Services Operations	178,234	166,207	0	0	178,234	166,207	-6.748%
Facilities Acquisition & Construction	0	0	0	0	0	0	0.000%
Loss on Sale of Equipment	4,863	17,681	0	0	4,863	17,681	263.582%
Amortization	145	145	0	0	145	145	0.000%
Depreciation	509,483	518,062	5,915	5,660	515,398	523,722	1.615%
Interest on Long-Term Debt	231,341	187,393	0	0	231,341	187,393	-18.997%
Food Services Operations	0	0	769,711	751,815	769,711	751,815	-2.325%
						0	
Total Expenses	9,533,860	10,753,793	775,626	757,474	10,309,486	11,511,267	11.657%
						\$ -	
Change in Net Position	\$ 4,622.00	\$ 39,375	\$ 18,028.00	\$ 34,453.00	\$ 22,649.00	\$ 73,828.27	225.967%

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2015.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

Table 3

Revenues & Expenditures								
	Fund 1	Fund 2	Fund 21	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
BEG BALANCE	459,151	0		0	37,889	59,445	0	85,834
REVENUE								
Local Revenue Sources	1,295,651	16,469		0	154,453	0	0	31,492
State Revenue Sources	6,205,864	426,892		93,714	196,506	0	58,080	68,166
Federal Revenue	140,158	1,408,450		0	0	0	0	735,726
Other	0	0	12,967	0	0	0	0	0
TOTALS	7,641,672	1,851,811	12,967	93,714	350,959	0	58,080	835,384
EXPENDITURES								
Instruction	3,765,952	1,305,234	4,439	0	0	0	0	0
Student Support Services	439,764	108,126	0	0	0	0	0	0
Instructional Staff Support Services	355,310	230,587	0	0	0	0	0	0
District Admin Support	477,939	0	0	0	0	0	0	0
School Admin Support	643,482	0	0	0	0	0	0	0
Business Support Services	379,683	18,408	0	0	0	0	0	0
Plant Operations & Management	919,093	899	0	0	0	0	0	0
Student Transportation	583,481	3,199	0	0	0	0	0	0
Other Instructional	0	0	0	0	0	0	0	0
Food Service Operations	0	0	0	0	0	0	0	792,352
Community Services	19,078	144,070	0	0	0	0	0	0
Debt Service	31,246	0	0	0	0	0	396,065	0
Architectural/Engineering	0	0	0	0	0	0	0	0
Building Acquisitions & Construction	0	0	0	0	0	0	0	0
Site Improvement	0	0	0	0	0	0	0	0
Building Improvements	0	0	0	0	0	852,663	0	0
Fund Transfers	0	0	0	0	0	0	0	0
TOTALS	7,615,028	1,810,523	4,439	0	0	852,663	396,065	792,352
OTHER FINANCING SOURCES (USES)								
Loss Compensation	26,565							
Bond Issuance						2,852,735		
Operating Transfers In	139,258	22,467	0	0	0	0	337,985	0
Operating Transfers Out	-22,467	-63,755	0	-93,714	-276,317	0	0	-43,457
TOTAL	143,356	-41,288	0	-93,714	-276,317	0	337,985	-43,457
END BALANCE	629,150	0	8,527	0	112,531	2,059,517	0	128,866

THE DISTRICT’S FUNDS

At the end of the fiscal year 2015, the General Fund reflected a fund balance of \$629,150, an increase of \$170,000 over last year’s fund balance. SEEK funding was increased \$152,936 over last year. This was the result of legislative action to increase the guaranteed base to help offset the cost of mandated wage increases over the next two years. End of year AADA in 2014 was 937.142 a drop of 16.335 from 2013 AADA of 953.477. These numbers are used in the calculated SEEK amount for the following school year. Although General Fund Revenues increased \$452,796 over last year, the increase in the SEEK guaranteed base (to offset salary increases), on-behalf payments and reimbursement of funds from federal sources comprised over 90% of the increase. The on-behalf payments are not actual revenue to the district but is an amount to be “booked” to recognize payments made by KDE “on-behalf” of the district in the areas of Kentucky Teachers’ Retirement, technology, bond payments and health and life insurance.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

A portion of the General Fund balance is reserved for prior year encumbrances, site-based council allocations carried forward from the prior year and sick leave payable. The unassigned portion of the fund balance at the end of fiscal year 2015 is \$492,151 compared to \$387,715 the preceding year.

CAPITAL ASSETS

The District ended the year with \$9.5 million invested in capital assets, including land, buildings, buses, computers and other equipment. This number remained steady with the additions and retirements for 2014.

Table 4
Capital Assets at Year-End FY2015
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
	Land	157,410	157,410			157,410
Land Improvements	99,461	87,946			99,461	87,946
Building & Improvements	7,546,495	7,274,379			7,546,495	7,274,379
Technology Equipment	728,196	736,212	3,687	405	731,883	736,617
Vehicles	314,023	342,253			314,023	342,253
General Equipment	68,594	66,756	17,248	14,871	85,843	81,627
Construction In Progress	150,019	912,422			150,019	912,422

DEBT

The district’s outstanding debt at the end of FY2015 is reflected in Table 5. The Capital Lease Obligations represents the district’s participation in the Kentucky Interlocal School Transportation Association (KISTA) program to purchase new buses. The district entered into a loan agreement of \$346,989 with KISTA to finance the balance of the KSBIT (Kentucky School Board Insurance Trust) assessment for the district’s assessment for Worker’s Compensation obligations after the KSBIT Worker’s Compensation pool was declared insolvent. The total outstanding KISTA principal at the end of 2015 was \$547,154. This debt will be repaid over a 10-year period.

The General Obligation Bonds represent the bond issues for the construction and renovation of buildings since 2003. School Building Revenue Bonds of \$2,350,000 and Qualified Zone Academy Bonds of \$500,000 were issued in FY2015 for the renovation of Southside Elementary School. The district participates in the School Facilities Construction Commission (SFCC) program meaning at the end of odd-numbered fiscal years, the district will escrow balances in the Capital Outlay and Building funds and the SFCC in turn makes an offer of assistance to the district of funding for future debt service retirement. The SFCC is currently committed to funding \$1,247,536 in bond principal payments of the amount below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

Table 5

Outstanding Debt at Year-End

	Government Activities	
	2014	2015
Capital Lease Obligations	226,480	200,165
General Obligation Bonds	4,360,000	6,950,000
KSBIT		346,989
Total Obligations	4,586,480	7,497,154

COMMENTS ON BUDGET COMPARISONS

- Revenues: General Fund total revenue for the fiscal year ended June 30, 2015 was \$7,807,495 of which, \$455,562 was beginning balance and \$1,699,037 was State On-Behalf payments. These on-behalf payments are primarily for health & life insurance and teachers' retirement contributions. Property tax revenues exceeded budgeted amounts as did utility taxes.
- Expenses: General Fund expenses totaled \$7,637,495, which was \$129,196 less than was budgeted; again the total expenditures included \$1,699,037 of on-behalf payments. On-behalf payments were budgeted in the working budget for FY2015.

BUDGETARY IMPLICATIONS

By law, the district's budget must have a minimum 2.0% contingency. The District adopted a tentative budget for 2015-2016 with a 4.7% contingency.

Issues which are anticipated to impact future budgets include:

- Increased expenses to meet federal and state academic mandates such as the Kentucky Common Core Content Standards.
- The possibility of additional reductions in federal funding.
- Continued unfunded mandates such as the shared KTRS contribution (requiring a 3.0% district match of gross pay for all KTRS eligible employees in FY2015), initiatives moving formerly state-paid expenses to districts (MUNIS and Infinite Campus).
- The continuing trend of dropping student enrollment and attendance will challenge the district's ability to continue to maintain programs at current levels.
- Continued decreasing funding of the state transportation formula.

Questions regarding this report should be directed to the Finance Officer, Zina Gibson or Superintendent, James Evans, Jr. at (606) 464-5000 or by mail at Lee County Board of Education, P.O. Box 668, Beattyville, Kentucky 41311.

Lee County School District
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,171,956	\$ 120,679	\$ 3,292,635
Receivables (net)	268,625	4,161	272,786
Inventories		32,353	32,353
Capital assets:			
Land, improvements, and construction in progress	1,069,832		1,069,832
Other capital assets, net of depreciation	8,507,546	15,276	8,522,822
Total capital assets	9,577,378	15,276	9,592,654
Total assets	13,017,959	172,469	13,190,428
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	253,431	8,057	261,488
Deferred savings from refunding bonds	1,012		1,012
Total deferred outflows of resources	254,443	8,057	262,500
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	13,272,402	180,526	13,452,928
LIABILITIES			
Accounts payable and accrued expenses	268,522		268,522
Accrued interest payable	93,545		93,545
Accrued salaries & benefit payable	21,370		21,370
Accrued payroll taxes payable	75,756		75,756
Unearned revenue	213,415		213,415
Long-term liabilities:			
Due within 1 year:			
Bond obligations	301,000		301,000
Capital lease obligations	26,848		26,848
KSBIT payable	27,083		27,083
Sick leave	51,794		51,794
Total due within 1 year	406,725	-	406,725
Due in more than 1 year:			
Bond obligations	6,649,000		6,649,000
Capital lease obligations	173,317		173,317
KSBIT payable	319,906		319,906
Net pension liability	2,066,066	96,934	2,163,000
Sick leave	286,713		286,713
Total due in more than 1 year	9,495,002	96,934	9,591,936
Total liabilities	10,574,334	96,934	10,671,268
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	230,200	10,800	241,000
NET POSITION			
Net Investment in capital assets	2,427,213	15,276	2,442,489
Restricted for:			
Other	145,526		145,526
Capital projects	2,172,047		2,172,047
Food Services		57,516	57,516
Deficit	(2,276,919)		(2,276,919)
Total net position	2,467,868	72,792	2,540,659
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 13,272,402	\$ 180,526	\$ 13,452,928

See the accompanying notes to the financial statements.

Lee County School District
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 5,889,860		\$ 2,698,735	\$ -	\$ (3,191,126)		\$ (3,191,126)
Support services							
Student	550,671	12,967	224,722		(312,983)		(312,983)
Instructional staff	582,400		237,670		(344,730)		(344,730)
District administration	476,636		194,509		(282,127)		(282,127)
School administration	644,764		263,120		(381,645)		(381,645)
Business	404,153		164,930		(239,224)		(239,224)
Plant operation & maintenance	722,929	26,565	295,018	290,220	(111,126)		(111,126)
Student transportation	592,891		241,951		(350,940)		(350,940)
Community services operations	166,207		67,827		(98,380)		(98,380)
Amortization	145				(145)		(145)
Depreciation	518,062				(518,062)		(518,062)
Loss on sale of equipment	17,681				(17,681)		(17,681)
Interest on long-term debt	187,393			58,080	(129,313)		(129,313)
Total governmental activities	<u>10,753,793</u>	<u>39,532</u>	<u>4,388,480</u>	<u>348,300</u>	<u>(5,977,482)</u>		<u>(5,977,482)</u>
Business-type activities:							
Food service operations	751,815	31,159	803,892			\$ 83,236	83,236
Depreciation	5,660					(5,660)	(5,660)
Total business-type activities	<u>757,474</u>	<u>31,159</u>	<u>803,892</u>	<u>-</u>	<u>-</u>	<u>77,577</u>	<u>77,577</u>
Total primary government	\$ <u>11,511,267</u>	\$ <u>70,691</u>	\$ <u>5,192,372</u>	\$ <u>348,300</u>	<u>(5,977,482)</u>	<u>77,577</u>	<u>(5,899,905)</u>
General revenues:							
Taxes:							
Property taxes					752,114		752,114
Oil					125,652		125,652
Motor vehicle taxes					174,079		174,079
Utility taxes					371,104		371,104
Revenue in lieu of taxes					10,209		10,209
State and formula grants					4,506,827		4,506,827
Unrestricted investment earnings					2,347	333	2,680
Other local					31,067		31,067
Transfers					43,457	(43,457)	-
Total general revenues and transfers					<u>6,016,856</u>	<u>(43,124)</u>	<u>5,973,732</u>
Change in net position					39,375	34,453	73,827
Net Position - beginning					4,490,773	135,096	4,625,869
Prior period adjustment					(2,062,280)	(96,757)	(2,159,037)
Restated net position - beginning					<u>2,428,493</u>	<u>38,339</u>	<u>2,466,832</u>
Net Position - ending					\$ <u>2,467,868</u>	\$ <u>72,792</u>	\$ <u>2,540,659</u>

See the accompanying notes to the financial statements.

Lee County School District
Balance Sheet
Governmental Funds
June 30, 2015

	Governmental Funds					
	General	Special Revenue	Construction Fund	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 758,005	\$ 26,778	\$ 2,265,447	\$ -	\$ 121,725	\$ 3,171,956
Receivables, net						
Taxes-current	37,625					37,625
Taxes-delinquent	2,916					2,916
Accounts	30,390					30,390
Intergovernmental-federal		197,694				197,694
Total assets	828,937	224,472	2,265,447	-	121,725	3,440,581
LIABILITIES						
Accounts payable	55,485	6,439	205,931		667	268,522
Payroll taxes payable	75,756					75,756
Accrued salaries & benefits payable	21,370					21,370
Sick leave payable	47,176	4,617				51,794
Unearned revenue		213,415				213,415
Total liabilities	199,786	224,472	205,931	-	667	630,856
FUND BALANCE						
Restricted			2,059,517		112,531	2,172,047
Committed					8,528	8,528
Assigned	136,999					136,999
Unassigned	492,151					492,151
Total fund balance	629,150	-	2,059,517	-	121,058	2,809,725
TOTAL LIABILITIES AND FUND BALANCE	\$ 828,937	\$ 224,472	\$ 2,265,447	\$ -	\$ 121,725	\$ 3,440,581

See the accompanying notes to the financial statements.

Lee County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances-total governmental funds	\$	2,809,725
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		9,577,378
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		1,012
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(93,545)
Bonds payable		(7,150,165)
KSBIT payable		(346,989)
Sick leave liability		(286,713)
Net pension liability		(2,066,066)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to employer 2015 contributions to pensions		253,431
Deferred inflows of resources related to pensions		(230,200)
Net position of governmental activities	\$	<u><u>2,467,868</u></u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 597,661	\$ -	\$ -	\$ -	\$ 154,453	\$ 752,114
Oil	125,652					125,652
Motor vehicle	174,079					174,079
Utilities	371,104					371,104
Revenue in lieu of taxes	10,209					10,209
Other local revenue	14,774	16,294				31,067
Student activities					12,967	12,967
Earnings on investments	2,172	175				2,347
Intergovernmental - state	6,205,864	426,892		58,080	290,220	6,981,056
Intergovernmental - federal	140,158	1,408,450				1,548,608
Total revenues	<u>7,641,672</u>	<u>1,851,811</u>	<u>-</u>	<u>58,080</u>	<u>457,640</u>	<u>10,009,202</u>
EXPENDITURES						
Instruction	3,765,952	1,305,234			4,439	5,075,625
Support services						
Student	439,764	108,126				547,890
Instructional staff	355,310	230,587				585,898
District administration	477,939					477,939
School administration	643,482					643,482
Business	379,683	18,408				398,090
Plant operation & maintenance	919,093	899				919,992
Student transportation	583,481	3,199				586,680
Building improvements			852,663			852,663
Community services operations	19,078	144,070				163,148
Debt service	31,246			396,065		427,311
Total expenditures	<u>7,615,028</u>	<u>1,810,523</u>	<u>852,663</u>	<u>396,065</u>	<u>4,439</u>	<u>10,678,719</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,643	41,288	(852,663)	(337,985)	453,201	(669,517)
OTHER FINANCING SOURCES (USES)						
Loss compensation	26,565					26,565
Bond issuance			2,852,735			2,852,735
Operating transfers in	139,258	22,467		337,985		499,710
Operating transfers (out)	(22,467)	(63,755)			(370,031)	(456,253)
Total other financing sources and (uses)	<u>143,356</u>	<u>(41,288)</u>	<u>2,852,735</u>	<u>337,985</u>	<u>(370,031)</u>	<u>2,922,758</u>
NET CHANGE IN FUND BALANCE	170,000	-	2,000,072	-	83,169	2,253,241
FUND BALANCE-BEGINNING	<u>459,151</u>	<u>-</u>	<u>59,445</u>	<u>-</u>	<u>37,889</u>	<u>556,484</u>
FUND BALANCE-ENDING	<u>\$ 629,150</u>	<u>\$ -</u>	<u>\$ 2,059,517</u>	<u>\$ -</u>	<u>\$ 121,058</u>	<u>\$ 2,809,725</u>

See the accompanying notes to the financial statements.

Lee County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2015

Net change in fund balances-total governmental funds	\$	2,253,241
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		19,445
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(2,336,720)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(145)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		286,315
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		(46,397)
KSBIT payable		(3,520)
Noncurrent sick leave payable		(132,845)
		(182,762)
Change in net position of governmental activities	\$	<u><u>39,375</u></u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Taxes				
Property	\$ 475,020	\$ 475,020	\$ 597,661	\$ 122,641
Oil	100,000	100,000	125,652	25,652
Motor vehicle	165,000	165,000	174,079	9,079
Utilities	375,000	375,000	371,104	(3,896)
Revenue in lieu of taxes	8,000	8,000	10,209	2,209
Other local revenue	8,350	8,350	14,774	6,424
Earnings on investments	2,500	2,500	2,172	(328)
Intergovernmental - state	5,990,904	5,990,904	6,205,864	214,960
Intergovernmental - federal	55,000	55,000	140,158	85,158
Total revenues	<u>7,179,774</u>	<u>7,179,774</u>	<u>7,641,672</u>	<u>461,898</u>
EXPENDITURES				
Instruction	3,472,080	3,467,752	3,765,952	(298,200)
Support services				
Student	465,413	465,413	439,764	25,649
Instructional staff	363,712	364,931	355,310	9,621
District administration	488,818	493,227	477,939	15,288
School administration	642,138	640,838	643,482	(2,644)
Business	340,832	340,832	379,683	(38,851)
Plant operation & maintenance	799,063	799,063	919,093	(120,031)
Student transportation	610,445	610,445	583,481	26,964
Food service operations	15	15	15	15
Debt service	32,000	32,000	31,246	754
Community services operations	21,160	21,160	19,078	2,082
Total expenditures	<u>7,235,676</u>	<u>7,235,676</u>	<u>7,615,028</u>	<u>(379,352)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(55,902)	(55,902)	26,643	82,545
OTHER FINANCING SOURCES (USES)				
Loss compensation			26,565	26,565
Operating transfers in	131,355	131,355	139,258	7,903
Operating transfers (out)	(15,000)	(15,000)	(22,467)	(7,467)
Total other financing sources and (uses)	<u>116,355</u>	<u>116,355</u>	<u>143,356</u>	<u>27,001</u>
NET CHANGE IN FUND BALANCE	60,453	60,453	170,000	109,547
FUND BALANCE-BEGINNING	<u>455,562</u>	<u>455,562</u>	<u>459,151</u>	<u>3,589</u>
FUND BALANCE-ENDING	<u>\$ 516,015</u>	<u>\$ 516,015</u>	<u>\$ 629,150</u>	<u>\$ 113,135</u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Other local revenue	\$ -	\$ 2,850	\$ 16,294	\$ 13,444
Student activities			-	-
Earnings on investments			175	175
Intergovernmental - state	365,675	565,197	426,892	(138,305)
Intergovernmental - federal	1,344,533	1,440,037	1,408,450	(31,587)
Total revenues	<u>1,710,208</u>	<u>2,008,083</u>	<u>1,851,811</u>	<u>(156,272)</u>
EXPENDITURES				
Instruction	1,221,169	1,379,998	1,305,234	74,764
Support Services				
Student	88,544	100,820	108,126	(7,306)
Instructional Staff	190,122	243,712	230,587	13,125
Business	30,000	44,934	18,408	26,526
Plant Operation & Maintenance		1,400	899	501
Student Transportation			3,199	(3,199)
Community Services Operations	195,373	196,363	144,070	52,293
Total expenditures	<u>1,725,208</u>	<u>1,967,227</u>	<u>1,810,523</u>	<u>156,704</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,000)	40,856	41,288	432
OTHER FINANCING SOURCES (USES)				
Operating transfers in	67,744	74,893	22,467	(52,426)
Operating transfers out	(52,744)	(115,749)	(63,755)	51,994
Total other financing sources and (uses)	<u>15,000</u>	<u>(40,856)</u>	<u>(41,288)</u>	<u>(432)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 120,679
Receivables (net)	4,161
Inventories	32,353
Capital assets:	
Other capital assets, net of depreciation	15,276
Total assets	<u>172,469</u>
DEFERRED OUTFLOWS OF RESOURCES	
District pension contributions subsequent to the measurement date	<u>8,057</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>180,526</u></u>
LIABILITIES	
Net pension liability	96,934
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on pension plan investments	10,800
NET POSITION	
Net investment in capital assets	15,276
Expendable restricted for:	
Food service	<u>57,516</u>
Total net position	<u>72,792</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 180,526</u></u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2015

		School Food Services
OPERATING REVENUES		
Lunchroom sales	\$	31,159
Total operating revenues		<u>31,159</u>
OPERATING EXPENSES		
Depreciation		5,660
Food service operations		
Salaries and benefits		322,612
Operational		429,203
Total operating expenses		<u>757,474</u>
Operating income (loss)		(726,316)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		735,726
State grants		68,166
Transfers		(43,457)
Earnings from investments		333
Total nonoperating revenues (expenses)		<u>760,768</u>
CHANGE IN NET POSITION		34,453
NET POSITION-BEGINNING		135,096
PRIOR PERIOD ADJUSTMENT		(96,757)
RESTATED NET POSITION-BEGINNING		<u>38,339</u>
NET POSITION-ENDING	\$	<u><u>72,792</u></u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2015

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 31,159
Payments to suppliers	(420,119)
Payments to employees	(322,612)
Net cash provided (used) by operating activities	<u>(711,572)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer for indirect cost for administrative costs	(43,457)
Operating grants and contributions	803,892
Net cash provided (used) by noncapital financing activities	<u>760,435</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	333
Net cash provided (used) by investing activities	<u>333</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,196
CASH AND CASH EQUIVALENTS-BEGINNING	<u>71,483</u>
CASH AND CASH EQUIVALENTS-ENDING	<u><u>\$ 120,679</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (726,316)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	5,660
Changes in assets and liabilities:	
Receivables	13,054
Net pension liability	2,920
Inventories	(6,890)
Net cash provided (used) by operating activities	<u><u>\$ (711,572)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$39,742 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$61,495 provided by state government.

See the accompanying notes to the financial statements.

Lee County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

		School Activity Funds

ASSETS		
Cash and cash equivalents	\$	126,332
Investments		10,000
Accounts receivable		129

Total Assets		136,461
LIABILITIES		
Accounts payable		1,302
Due to student groups		135,159

Total Liabilities		136,461
NET POSITION HELD IN TRUST		

TOTAL LIABILITIES AND NET POSITION HELD IN TRUST	\$	136,461

See the accompanying notes to the financial statements.

LEE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lee 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 school education within the jurisdiction of the Lee County Board of Education (“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. 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 relevant to the operation of the Lee 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 financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. 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:

Blended Component Unit

Lee County Board Of Education Finance Corporation

The Board authorized establishment of the Lee County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Lee County Board of Education.

Basis of Presentation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments 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 and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that is 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District by request of the Kentucky Department of Education.

(C) Special Revenue (District Activity) Fund

The Special Revenue (District Activity) Fund accounts for district activity at the school level. It includes activity items such as school picture sales, yearbook sales, student fees and donations.

(D) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the district.

(E) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts 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 also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party 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 expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource 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 specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis, on a modified accrual basis, revenues from nonexchange transactions must also be available before 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.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.319 per \$100 valuation of real property, \$.319 per \$100 valuation for business personal property and \$.523 per \$100 valuation for motor vehicles.

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

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 government funds. These assets are reported in the government activities column of the government-wide financial 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 fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. 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 internal balances.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

The General Fund’s expenditures exceeded its budgeted appropriations by \$379,352.

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.

On governmental fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period 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 expenditure/expense is reported in the year in which services are consumed.

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

Fund Balances

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

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

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

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

Pensions

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

Estimates

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

New Accounting Pronouncements

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

NOTE B – CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents are interest bearing accounts and certificates of deposits with a maturity of ninety (90) days or less. Due to the liquidity nature of these accounts the carrying value is the fair market value. Various local banks are used as depositories.

Investments are certificates of deposits of the financial institution that have a maturity of ninety (90) days or more.

	Bank Balance		
Citizens Bank & Trust:			
FDIC	\$	250,000	
Securities pledged to district		1,537,454	
Uncollateralized		<u>1,606,093</u>	
Bank balance	\$	<u>3,393,547</u>	
 Peoples Exchange Bank:			
		<u>Cash</u>	<u>Time Deposit</u>
		<u>Total</u>	
FDIC	\$	5,776	\$ 10,000
		<u>15,776</u>	
Bank balance	\$	<u>5,776</u>	\$ <u>10,000</u>
		<u>15,776</u>	
 BB&T:			
FDIC	\$	250,000	
Uncollateralized		<u>240,023</u>	
Bank balance	\$	<u>490,023</u>	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Book Balance</u>	
	<u>Cash and cash equivalents</u>	<u>Investments</u>
Governmental Activities	\$ 3,171,956	\$ -
Business-type Activities	120,679	
Fiduciary Fund		-
School Activity	126,332	10,000
	<hr/>	<hr/>
Total carrying amount	\$ 3,418,967	\$ 10,000
	<hr/>	<hr/>

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, Special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 157,410	\$ -	\$ -	\$ 157,410
Land improvements	525,133	-	-	525,133
Buildings	15,763,084	-	-	15,763,084
Technology equipment	2,354,521	177,225	252,546	2,279,200.18
Vehicles	1,678,258	98,608	119,498	1,657,368
General equipment	438,041	10,787	-	448,828
Construction in progress	150,019	762,403	-	912,422
Total at historical cost	\$ <u>21,066,466</u>	\$ <u>1,049,023</u>	\$ <u>372,044</u>	\$ <u>21,743,445</u>
Less: Accumulated depreciation				
Land improvements	425,672	11,515	-	437,187
Buildings	8,216,589	272,117	-	8,488,705
Technology equipment	1,626,425	151,428	234,865	1,542,988.44
Vehicles	1,364,235	70,377	119,498	1,315,115
General equipment	369,446	12,625	-	382,071
Total accumulated depreciation	\$ <u>12,002,368</u>	\$ <u>518,062</u>	\$ <u>354,363</u>	\$ <u>12,166,067</u>
Governmental Activities				
Capital Assets-net	\$ <u>9,064,098</u>	\$ <u>530,961</u>	\$ <u>17,681</u>	\$ <u>9,577,378</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Technology equipment	\$ 16,503	\$ -	\$ -	\$ 16,503
General equipment	<u>368,055</u>	<u>-</u>	<u>-</u>	<u>368,055</u>
Total at historical cost	\$ <u>384,558</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>384,558</u>
Less: Accumulated depreciation				
Technology equipment	\$ 12,816	\$ 3,282	\$ -	\$ 16,098
General equipment	<u>350,807</u>	<u>2,378</u>	<u>-</u>	<u>353,185</u>
Total accumulated depreciation	\$ <u>363,623</u>	\$ <u>5,660</u>	\$ <u>-</u>	\$ <u>369,282</u>
Business-Type Activities				
Capital Assets-net	\$ <u>20,935</u>	\$ <u>(5,660)</u>	\$ <u>-</u>	\$ <u>15,276</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represents the District’s future obligations to make payments relating to the bonds issued by the Lee County School District Finance Corporation aggregating \$6,950,000 and \$301,000 is the portion due within one year.

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

The original amount of outstanding issues, the issue dates, maturity dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
Issue of 2008A	\$ 1,850,000	4/1/2028	3.00-3.75%	\$ 1,590,000		\$ 75,000	\$ 1,515,000
Issue of 2012R	1,460,000	4/1/2023	.5-2.0%	1,315,000		145,000	1,170,000
Issue of 2015 QZAB	500,000	2/1/2030	.35%		500,000		500,000
Issue of 2008B	385,000	8/1/2028	3.80-4.60%	330,000		15,000	315,000
Issue of 2010	1,200,000	8/1/2030	1.5-4%	1,125,000			1,125,000
Issue of 2015 QZAB	\$ 2,350,000	2/1/2035	2.0-3.5%		2,350,000	25,000	2,325,000
Totals				\$ 4,360,000	\$ 2,850,000	\$ 260,000	\$ 6,950,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The table following sets forth the amount to be paid by the District for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

Fiscal Year Ended 30-Jun	Principal		Interest		Principal Total	Interest Total
	Local	KSFCC	Local	KSFCC		
2016	\$ 244,064	\$ 56,936	\$ 171,315	\$ 41,337	\$ 301,000	\$ 212,652
2017	251,479	59,521	163,104	38,752	311,000	201,855
2018	260,861	61,139	158,143	37,134	322,000	195,277
2019	264,197	62,803	151,705	35,470	327,000	187,175
2020	272,484	64,516	144,960	33,758	337,000	178,718
2021-2025	1,468,912	353,088	610,767	138,279	1,822,000	749,046
2026-2030	1,606,833	378,167	373,549	75,148	1,985,000	448,697
2031-2035	1,333,634	211,366	138,027	20,048	1,545,000	158,075
	<u>\$ 5,702,464</u>	<u>\$ 1,247,536</u>	<u>\$ 1,911,569</u>	<u>\$ 419,926</u>	<u>\$ 6,950,000</u>	<u>\$ 2,331,495</u>

NOTE E – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for non-service-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

		<u>Required contribution</u>
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

General information about the Teachers’ Retirement System of the State of Kentucky (“KTRS”)

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers’ Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund 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 employees under the age of 65 through the Kentucky Employees

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

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

District's proportionate share of CERS net pension liability	\$ 2,163,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district	<u>28,067,443</u>
	<u>\$ 30,230,443</u>

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

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District’s proportion was .066679% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$244,963 related to CERS and \$2,474,475 related to KTRS. The District also recognized revenue of \$2,474,475 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	241,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>261,488</u>	<u>-</u>
	\$ <u>261,488</u>	\$ <u>241,000</u>

\$261,488 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2016	\$ 52,298
2017	52,298
2018	52,298
2019	52,298
2020	<u>52,298</u>
	\$ <u>261,488</u>

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

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

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

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	2,442,453	2,163,000	1,884,178
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

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

NOTE F – COMMITMENTS

The District has commitments for future construction as of June 30, 2015 for the South Side Elementary project in the amount of \$2,087,578.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CONTINGENCIES

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

NOTE H - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, illegal acts, 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 Workers' Compensation insurance.

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

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

NOTE K - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE L – TRANSFER OF FUNDS

The following transfers were made during the year:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	FSPK Fund	General Fund	Operations	\$ 2,087
Operating	Capital Outlay Fund	General Fund	Operations	93,714
Operating	Food Service Fund	General Fund	Indirect Costs	43,457
Operating	General Fund	Special Revenue Fund	KETS	22,467
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	274,230
Debt Service	Special Revenue Fund	Debt Service Fund	Debt Payments	\$ 63,755

NOTE M – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 661,419
Health Insurance	1,151,877
Life Insurance	1,864
Administrative Fee	12,800
HRA/Dental/Vision	30,013
Federal Reimbursement	(141,738)
Technology	44,297
SFCC Debt Service Payments	<u>58,080</u>
Total	\$ <u>1,818,612</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE N – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
Issue of 2012	\$ 175,500	3/1/2022	2.0 - 2.625%	\$ 136,650		\$ 16,592	\$ 120,058
Issue of 2014	89,830	3/1/2024	2.0 - 3.0%	<u>89,830</u>		<u>9,723</u>	<u>80,107</u>
Totals				<u>\$ 226,480</u>	<u>\$ -</u>	<u>\$ 26,315</u>	<u>\$ 200,165</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

Fiscal Year Ended <u>30-Jun</u>	<u>Principal</u> <u>Local</u>	<u>Interest</u> <u>Local</u>	<u>Total</u>
2016	\$ 26,848	\$ 4,432	\$ 31,280
2017	25,779	3,895	29,674
2018	26,279	3,380	29,659
2019	26,848	2,854	29,702
2020	27,381	2,317	29,698
2021-2024	<u>67,030</u>	<u>3,585</u>	<u>70,615</u>
	\$ <u>200,165</u>	\$ <u>20,464</u>	\$ <u>220,629</u>
Total minimum lease payments		\$	220,629
Less: Amount representing interest			(20,464)
Present Value of Net Minimum Lease Payments		\$	200,165

NOTE O – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$2,159,037 reduction in beginning net position on the Statement of Activities and an increase of \$288,963 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE P – OTHER LONG TERM LIABILITIES

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. Current sick leave was \$51,794 as of June 30, 2015 and \$2,913 as of June 30, 2014. The activity during the fiscal year 2015 for accumulated sick leave is as follows:

	2014			2015	
	Outstanding			Outstanding	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
Sick Leave	\$ 156,781	\$ 181,726	\$ -	\$ 338,507	

The District elected to finance the worker’s compensation insurance deficit (KSBIT) with the now defunct Kentucky School Board Insurance Trust through the Kentucky Inter-local School Transportation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Association (KISTA). The activity during fiscal year 2015 for the worker’s compensation and property and liability deficit are as follows:

<u>KISTA Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014 KISTA Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 KISTA Outstanding</u>
KSBIT	\$ 346,989	8/1/2024	2.0 - 3.25%	\$ -	\$ 346,989	\$ -	\$ 346,989

The minimum payments are as follows:

<u>Fiscal Year Ended June 30th</u>	<u>Local Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 27,083	\$ 12,613	\$ 39,696
2017	32,206	8,196	40,402
2018	32,857	7,545	40,402
2019	33,546	6,856	40,402
2020	34,275	6,127	40,402
2021-2024	<u>187,022</u>	<u>14,985</u>	<u>202,007</u>
	<u>\$ 346,989</u>	<u>\$ 56,322</u>	<u>\$ 403,311</u>

NOTE Q – RESTRICTED FUND BALANCES

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
FSPK	\$ 112,531	School Facilities Construction Commission Requirement
Food Service	57,516	Food Service Operations
Construction	\$ 2,059,517	Future Construction

NOTE R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2015 the date of the audit report.

LEE COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.0667%
District's proportionate share of the net pension liability	\$ 2,163,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 2,163,000
District's covered-employee payroll	\$ 1,515,601
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.72%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.136%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	28,067,443
Total	\$ 28,067,443
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 261,488	\$ 286,297
Contributions in relation to the contractually required contribution	261,488	286,297
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,479,836	\$ 1,515,601
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2015

Changes of benefit terms – None

Changes of assumptions - None

Lee County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2015

	Other Governmental Funds			
	FSPK Fund	Capital Outlay	District Activity	Total
Assets				
Cash and Cash Equivalents	\$ 112,531	\$ -	\$ 9,194	\$ 121,725
Total Assets	112,531	-	9,194	121,725
Liabilities				
Accounts Payable			667	667
Total Liabilities	-	-	667	667
Fund Balance				
Restricted	112,531			112,531
Committed			8,528	8,528
Total Fund Balance	112,531	-	8,528	121,058
Total Liabilities and Fund Balance	\$ 112,531	\$ -	\$ 9,194	\$ 121,725

See the accompanying notes to the financial statements.

Lee County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
 Year ended June 30, 2015

	Other Governmental Funds			
	FSPK Fund	Capital Outlay	District Activity	Total
Revenues				
Property Taxes	\$ 154,453	\$ -	\$ -	\$ 154,453
Student Activities			12,967	12,967
Intergovernmental - State	196,506	93,714		290,220
	350,959	93,714	12,967	457,640
Total Revenues				
Expenditures				
Instruction			4,439	4,439
	-	-	4,439	4,439
Total Expenditures				
Excess (Deficit) of Revenues Over Expenditures	350,959	93,714	8,528	453,201
Other Financing Sources (Uses)				
Transfers (Out)	(276,317)	(93,714)		(370,031)
	(276,317)	(93,714)	-	(370,031)
Total Other Financing Sources (Uses)				
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	74,642	-	8,528	83,169
Fund Balance-Beginning	37,889	-	-	37,889
Fund Balance-Ending	\$ 112,531	\$ -	\$ 8,528	\$ 121,058

See the accompanying notes to the financial statements.

Lee County School District
Combining Balance Sheet of Fiduciary Funds - School Activity Funds
 June 30, 2015

SCHOOL ACTIVITY FUNDS

	<u>LEE COUNTY HIGH SCHOOL</u>	<u>LEE CO HIGH CHARITABLE GAMING ACCT</u>	<u>LEE COUNTY MIDDLE SCHOOL</u>	<u>BEATTYVILLE ELEMENTARY</u>	<u>SOUTHSIDE ELEMENTARY</u>	<u>TOTAL</u>
ASSETS						
Cash and cash equivalents	\$ 66,940	\$ 327	\$ 13,347	\$ 21,528	\$ 24,190	\$ 126,332
Investments	10,000	-	-	-	-	10,000
Accounts receivable	-	-	129	-	-	129
Total Assets	<u>76,940</u>	<u>327</u>	<u>13,475</u>	<u>21,528</u>	<u>24,190</u>	<u>136,461</u>
LIABILITIES						
Accounts payable	-	-	1,302	-	-	1,302
FUND BALANCE						
School activities	<u>76,940</u>	<u>327</u>	<u>12,173</u>	<u>21,528</u>	<u>24,190</u>	<u>135,159</u>
Total Liabilities & Fund Balances	<u>\$ 76,940</u>	<u>\$ 327</u>	<u>\$ 13,475</u>	<u>\$ 21,528</u>	<u>\$ 24,190</u>	<u>\$ 136,461</u>

See the accompanying notes to the financial statements.

Lee County School District
Combining Statement of Revenues, Expenses and Changes In Fund Balance
- School Activity Funds
Year ended June 30, 2015

	SCHOOL ACTIVITY FUNDS					
	LEE COUNTY HIGH SCHOOL	LEE CO HIGH CHARITABLE GAMING ACCT	LEE COUNTY MIDDLE SCHOOL	BEATTYVILLE ELEMENTARY	SOUTHSIDE ELEMENTARY	TOTAL
REVENUES						
Student/Trust revenues	\$ 146,170	\$ 369	\$ 40,985	\$ 45,152	\$ 28,066	\$ 260,742
EXPENSES						
Student/Trust activities	132,456	1,006	41,173	39,515	23,117	237,268
Total Expenses	132,456	1,006	41,173	39,515	23,117	237,268
Excess (Deficit) of Revenues Over Expenses	13,713	(637)	(188)	5,637	4,950	23,474
Fund Balance July 1, 2014	63,227	964	12,361	15,892	19,241	111,684
Fund Balance June 30, 2015	\$ 76,940	\$ 327	\$ 12,173	\$ 21,528	\$ 24,190	\$ 135,159

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Lee County High School
 Year ended June 30, 2015

	FUND BALANCE JULY 1, 2014	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE JUNE 30, 2015
OFFICE	\$ 1,333	\$ 6,488	\$ 798	\$ -	\$ 7,023
NOW INTEREST	877	183	612	-	449
LOST TEXTBOOKS	-	25	-	-	25
BOOK RENTAL	-	-	-	-	-
CLASS OF 2015	1,697	32,259	33,957	0	0
STUDENT VENDING	660	3,385	2,152	-	1,894
FACULTY VENDING	2,178	2,133	1,499	-	2,812
CLASS OF 2017	114	125	-	-	239
ACADEMICS	107	100	85	-	122
BETA CLUB	5,247	1,665	2,519	-	4,393
PTO	554	-	-	-	554
HOME ECONOMICS CLUB	36	-	-	-	36
FFA	7,328	19,522	20,062	-	6,787
CHESS CLUB	-	572	357	-	215
CLASS OF 2014	-	-	-	-	-
STUDENT COUNCIL	425	10	-	-	435
SEW COOL	2,276	-	-	-	2,276
ART	1,085	-	-	-	1,085
BAND	55	-	63	7	-
COMMUNICATIONS	3,132	35	2,935	-	232
PROM	3,701	3,575	3,699	-	3,577
PROJECT GRADUATION	18	50	-	-	68
CLASS OF 2016	554	4,857	1,907	-	3,504
YEARBOOK	-	1,370	-	-	1,370
SCHOLARSHIP FUND	2,070	4,200	4,400	-	1,870
ATHLETIC	2,154	23,279	8,648	(8,775)	8,011
BOYS BASKETBALL	9	6,613	4,711	-	1,911
GIRLS BASKETBALL	-	-	2,858	2,858	-
BASEBALL	-	827	1,230	403	-
SOFTBALL	95	-	1,534	1,439	-
VOLLEYBALL	-	1,489	2,281	792	-
GOLF	-	-	225	225	-
TENNIS	-	-	274	274	-
CROSS COUNTRY	-	-	80	80	-
CHEERLEADER	1,436	4,547	6,287	304	-
SENIORS	96	430	407	(0)	118
BOYS BASKETBALL	-	-	2,400	2,400	-
PERIODICALS/NEWSPAPERS	-	-	-	-	-
AV/LIBRARY	878	353	-	-	1,231
CERTIFICATE OF DEPOSIT	11,179	-	-	-	11,179
BASEBALL BOOSTERS	787	1,697	2,199	-	285
BASKETBALL BOOSTERS	369	-	-	-	369
BAND BOOSTERS	1,435	9,202	7,761	(7)	2,869
SOFTBALL BOOSTERS	2,237	381	2,341	-	277
ARCHERY	6,219	5,354	2,447	-	9,127
UNITE CLUB	50	-	-	-	50
OTHER GRANTS	797	-	-	-	797
PRIDE CLUB	120	-	-	-	120
CLASS OF 2013	-	-	-	-	-
VOLLEYBALL BOOSTERS	-	459	448	-	11
GIRLS BASKETBALL	1,224	1,190	1,694	-	719
BOWLING	79	4,196	4,109	-	166
PROJECT PROM	615	5,598	5,478	-	735
TOTALS	\$ 63,227	\$ 146,170	\$ 132,456	\$ -	\$ 76,940

See the accompanying notes to the financial statements.

LEE COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – 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 and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had received food commodities totaling \$39,742.

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	\$ N/A	\$ 55,109
Fiscal Year 15		7760005 15	N/A	163,513
* National School Lunch Program	10.555			
Fiscal Year 14		7750002 14	N/A	115,353
Fiscal Year 15		7750002 15	N/A	348,167
* Summer Food Service Program for Children	10.559			
Fiscal Year 14		7690024 14	N/A	379
Fiscal Year 14		7740023 14	N/A	3,659
Child Nutrition Cluster Subtotal				<u>686,181</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 14		7720012 14	N/A	3,205
Fiscal Year 15		7720012 15	N/A	19,652
				<u>22,857</u>
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950	N/A	39,742
Total US Department of Agriculture				<u>748,780</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE, Inc.				
PRIDE Environmental Education	11.420			
Fiscal Year 15		270A	1,473	1,473
Total US Department of Commerce				<u>1,473</u>
US Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 14		3100002 14	644,668	186,662
Fiscal Year 14M		3100002 14	6,600	2,227
Fiscal Year 15		3100002 15	640,780	391,516
Fiscal Year 15M		3100002 15	6,449	753
Title I Grants School Improvement	84.010A			
Fiscal Year 14		3100202 14	50,000	14,858
				<u>596,014</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	276,208	52
Fiscal Year 14		3810002 14	255,141	24,312
Fiscal Year 15		3810002 15	257,719	237,880
Special Education-Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	24,278	20,926
Special Education Cluster Subtotal				<u>283,170</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 14		4621332 14	9,773	6,188
Fiscal Year 15		4621332 15	9,582	2,768
				<u>8,956</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14	125,058	1,424
Fiscal Year 15		3230002 15	124,917	108,097
				<u>109,520</u>
School Improvement, Part G	84.377A			
Fiscal Year 14		3100302 14	167,304	48,797
Rural Education	84.358B			
Fiscal Year 15		3140002 15	21,985	20,422
Twenty-First Century Community Learning Centers	84.287			
Fiscal Year 12J		3400002 12	1,000	1,000
Fiscal Year 13J		3400002 13	1,000	1,000
Fiscal Year 13U		3400002 13	5,000	1,851
Fiscal Year 14		3400002 14	60,000	42,600
				<u>46,451</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	28,378	4,591
Passed Through Kentucky Valley Educational Cooperative				
Race to the Top - District	84.416A			
Fiscal Year 15		B416A140080	121,899	124,328
Passed through Reading is Fundamental, Inc				
Reading is Fundamental	81.000			
Fiscal Year 14		6874	6,000	333

See the accompanying notes to the Schedule of Expenditures of Federal Awards.

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Passed Through Morehead State University				
Appalachian Higher Education Network (KY AHED)	23.011			
Fiscal Year 15		6888A	3,261	2,654
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 14A		3794A	133,760	20,576
Fiscal Year 14C		3794C	33,000	3,129
Fiscal Year 14G		3794G	50,000	4,972
Fiscal Year 15A		379AA	N/A	79,890
Fiscal Year 15C		379AC	N/A	31,290
Fiscal Year 15G		379AG	N/A	30,591
				<u>170,448</u>
Total US Department of Education				<u><u>1,415,685</u></u>
Total Expenditure of Federal Awards			\$	<u><u>2,165,938</u></u>

* Major Programs

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

To the Lee County Board of Education and
State Committee for School District Audits
Beattyville, 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 the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lee County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lee County School District's basic financial statements, and have issued our report thereon dated November 10, 2015.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Lee County School District, in a separate letter dated November 10, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

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.

White & Associates, PSC

Richmond, Kentucky
November 10, 2015

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

To the Lee County Board of Education and
State Committee for School District Audits
Beattyville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lee 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 Lee County School District's major federal programs for the year ended June 30, 2015. Lee County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lee County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. 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 Lee 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 Lee County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Lee 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 Lee 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 Lee County School District's internal control over compliance.

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

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

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

White & Associates, P.C.

Richmond, Kentucky
November 10, 2015

LEE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2015

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

LEE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no prior year findings.