

**LEWIS COUNTY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Lewis County School District
Vanceburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District (the "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 Lewis County School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. 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 information on pages 6 through 9 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 Lewis County School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of Lewis County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

October 23, 2015
Ashland, Kentucky

**LEWIS COUNTY SCHOOL DISTRICT
VANCBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2015**

As management of the Lewis County School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the General Fund was \$957,345 and the ending balance was approximately \$1,036,768, an increase of approximately \$79,423 for the year.
- For fiscal year 2015, all employees received a step increase in salary for the year of service performed in fiscal 2014 plus a 1% increase to all steps of the salary schedules.
- The General Fund had \$17,247,950 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$17,317,008 in General Fund expenditures. General fund on-behalf payments totaled \$3,613,546.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$231,732 during the current fiscal year.
- The District implemented GASB 68 this year. There are two sources of pension liabilities with which the District has to contend. The Kentucky Teachers Retirement System covers the District's professional staff members. It had analysis performed by Cavanaugh Macdonald Consulting, LLC to determine each Kentucky school district's share of pension liabilities for its professional staff. This debt is the responsibility of the State of Kentucky. Our allocated amount was \$64,327,679, as of June 30, 2014. Our non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system the District's share of the pension liabilities was \$3,925,000, as of June 30, 2014. The District does not believe these disclosures will have a major impact on their day to day operations or the financial health of District. The District's bond rating is based on the State's rating so we have little control over our cost of borrowing.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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 (government 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. The government-wide financial statements can be found on pages 10 and 11 of this report.

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 three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 21 of this report.

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. The notes to the financial statements can be found on pages 22 - 38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$1.6 million as of June 30, 2015.

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

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

Net Position for the year ending June 30, 2015 and 2014

	2015	(As restated) 2014
Current Assets	\$ 3,418,257	\$ 1,172,101
Noncurrent Assets	16,758,807	17,572,845
Total Assets	<u>20,177,064</u>	<u>18,744,946</u>
Deferred Outflows	764,245	787,902

Current Liabilities	3,241,494	1,937,406
Noncurrent Liabilities	<u>15,634,121</u>	<u>16,619,654</u>
Total Liabilities	<u>18,875,615</u>	<u>18,557,060</u>
Deferred Inflows	438,000	-
Net Position		
Net investment in capital assets	4,145,474	4,190,959
Restricted	159,294	283,709
Unrestricted Fund Balance	<u>(2,677,074)</u>	<u>(3,498,880)</u>
Total Net Position	<u>\$ 1,627,694</u>	<u>\$ 975,788</u>

Comments on Budget Comparisons

- The District's total governmental funds revenues for the fiscal year ended June 30, 2015, net of interfund transfers, bond proceeds and payments, and gain on sale of assets were \$22,541,257, compared with \$21,400,329 in 2014. This increase is a result of a increase in grant funding and insurance proceeds received in the current year.
- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$297,342 less than budget or approximately 1.6%. Revenues were \$179,633 more than budget or 1.1%.
- The total cost of all programs and services for governmental funds was \$21,794,577, compared with \$21,550,493 in 2014.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2015, with comparison to 2014.

	<u>2015</u>	<u>2014</u>
Revenues:		
Local Revenue Sources	\$ 4,026,225	\$ 3,264,900
State and Federal Revenue Sources	<u>22,132,863</u>	<u>19,696,455</u>
Total Revenues	<u>26,159,088</u>	<u>22,961,355</u>
Expenses:		
Instruction	13,628,255	12,453,287
Student Support Services	1,422,053	1,295,306
Instructional Support	704,574	602,209
District Administration	678,931	588,008
School Administration	1,828,721	1,585,283
Business and Other Support Services	738,485	613,063
Plant Operations	1,793,965	1,430,308
Student Transportation	2,156,661	2,035,243
Community Services	234,210	220,452
Other	-	147,444
Debt service	783,548	391,666
Food Service	<u>1,540,779</u>	<u>1,489,485</u>
Total Expenses	<u>25,507,182</u>	<u>22,851,754</u>
Revenues Over (Under) Expenses	<u>\$ 651,906</u>	<u>\$ 109,601</u>

Governmental Funds Revenue

The majority of revenue was derived from state and federal funding making up 85% of total revenue. Local revenues make up 15% of total revenue (14% in 2014).

District-Wide Support Allocation

District-wide support services expenses were Transportation 8%, Maintenance & Operations 7%, and Business Functions 3%.

Capital Assets

At the end of June 30, 2015, the District's investment in capital assets for its governmental and business-type activities was \$16,758,807, representing an increase of \$582,746, net of depreciation, from the prior year. The increase is due to four new buses being purchased in the current year.

Debt Service

At year-end, the District had approximately \$12.9 million in outstanding debt, compared to \$13.2 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The general fund cash balance for beginning the next fiscal year is \$1,870,538. Significant factors that will impact 2015-2016 finances include a state mandated 2% increase to all cells of salary schedules, employee step increases due to an additional year of experience, and decreased enrollment.

The Lewis County School District's current and estimated grant notifications are not anticipated to make a year-to-year material impact upon the remaining funds. Award notifications and estimates are fairly in line with budgeted amounts.

Questions regarding this report should be directed to Joe Kennedy, Director of Finance/Treasurer at (606) 796-2811 or by mail at PO. Box 159, Vanceburg, Kentucky 41179.

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,949,657	\$ 33,469	\$ 1,983,126
Receivables (net of allowances for uncollectibles):			
Taxes	282,430	-	282,430
Other	673,499	-	673,499
Intergovernmental	426,396	-	426,396
Prepaid expenditures	28,333	-	28,333
Inventories	-	24,473	24,473
Capital assets, not being depreciated	272,556	-	272,556
Capital assets, being depreciated, net	16,444,916	41,335	16,486,251
Total assets	<u>20,077,787</u>	<u>99,277</u>	<u>20,177,064</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	255,529	-	255,529
Deferred pension contributions	423,274	85,442	508,716
Total deferred outflows of resources	<u>678,803</u>	<u>85,442</u>	<u>764,245</u>
Liabilities			
Accounts payable	1,158,313	3,916	1,162,229
Cash deficit balance	364,253	-	364,253
Deferred revenue	51,164	-	51,164
Accrued salaries and benefits	(2,801)	-	(2,801)
Interest payable	181,294	-	181,294
Portion due or payable within one year:			
Debt obligations	970,000	-	970,000
Capital leases	409,257	-	409,257
Accrued sick leave	106,098	-	106,098
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	9,405,000	-	9,405,000
Accrued sick leave	219,516	-	219,516
Capital leases	2,084,605	-	2,084,605
Net pension liability	3,265,773	659,227	3,925,000
Total liabilities	<u>18,212,472</u>	<u>663,143</u>	<u>18,875,615</u>
Deferred Inflows of Resources			
Deferred pension investment earnings	364,435	73,565	438,000
Total deferred inflows of resources	<u>364,435</u>	<u>73,565</u>	<u>438,000</u>
Net Position			
Net investment in capital assets	4,104,139	41,335	4,145,474
Restricted for:			
Capital projects	752,618	-	752,618
Other purposes	-	(593,324)	(593,324)
Unrestricted	(2,677,074)	-	(2,677,074)
Total net position	<u>\$ 2,179,683</u>	<u>\$ (551,989)</u>	<u>\$ 1,627,694</u>

The accompanying notes to financial statements are an integral part of this statement.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 13,628,255	\$ 22,100	\$ 2,137,950	\$ -	\$ (11,468,205)	\$ -	\$ (11,468,205)
Support services:							
Students	1,422,053	-	210,283	-	(1,211,770)	-	(1,211,770)
Instructional staff	704,574	-	303,712	-	(400,862)	-	(400,862)
District administration	678,931	-	109,738	-	(569,193)	-	(569,193)
School administration	1,828,721	-	4,310	-	(1,824,411)	-	(1,824,411)
Business and other support services	735,485	-	34,797	-	(700,688)	-	(700,688)
Operation and maintenance of plant	1,793,965	-	-	-	(1,793,965)	-	(1,793,965)
Student transportation	2,156,661	37,732	-	-	(2,118,929)	-	(2,118,929)
Food service operations	20,810	-	-	-	(20,810)	-	(20,810)
Community services	234,210	-	228,836	-	(5,374)	-	(5,374)
Debt service	783,548	-	-	1,166,283	382,735	-	382,735
Total governmental activities	<u>23,987,213</u>	<u>59,832</u>	<u>3,029,626</u>	<u>1,166,283</u>	<u>(19,731,472)</u>	<u>-</u>	<u>(19,731,472)</u>
Business-type activities:							
Food service	1,519,969	129,126	1,458,195	-	-	67,352	67,352
Total business-type activities	<u>1,519,969</u>	<u>129,126</u>	<u>1,458,195</u>	<u>-</u>	<u>-</u>	<u>67,352</u>	<u>67,352</u>
Total primary government	<u>\$ 25,507,182</u>	<u>\$ 188,958</u>	<u>\$ 4,487,821</u>	<u>\$ 1,166,283</u>	<u>\$ (19,731,472)</u>	<u>\$ 67,352</u>	<u>\$ (19,664,120)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 2,077,415	\$ -	\$ 2,077,415
Motor vehicle					359,916	-	359,916
Utilities					566,553	-	566,553
Intergovernmental revenues:							
State					16,478,759	-	16,478,759
Investment earnings					8,037	153	8,190
Gain (loss) on sale of assets					2,551	-	2,551
Other local revenues					822,642	-	822,642
Transfers					62,858	(62,858)	-
Total general revenues and transfers					<u>20,378,731</u>	<u>(62,705)</u>	<u>20,316,026</u>
Change in net position					647,259	4,647	651,906
Net position June 30, 2014, as restated					<u>1,532,424</u>	<u>(556,636)</u>	<u>975,788</u>
Net position, June 30, 2015					<u>\$ 2,179,683</u>	<u>\$ (551,989)</u>	<u>\$ 1,627,694</u>

The accompanying notes to financial statements are an integral part of this statement.

LEWIS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,870,538	\$ -	\$ 79,119	\$ 1,949,657
Receivables (net of allowances for uncollectibles):				
Property taxes	282,430	-	-	282,430
Other	-	-	673,499	673,499
Intergovernmental - state	-	426,396	-	426,396
Intergovernmental - federal	-	-	-	-
Prepaid expenditures	28,333	-	-	28,333
Total assets	<u>\$ 2,181,301</u>	<u>\$ 426,396</u>	<u>\$ 752,618</u>	<u>\$ 3,360,315</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,147,334	\$ 10,979	\$ -	\$ 1,158,313
Overdraft payable	-	364,253	-	364,253
Accrued salaries and benefits	(2,801)	-	-	(2,801)
Deferred revenue	-	51,164	-	51,164
Total liabilities	<u>1,144,533</u>	<u>426,396</u>	<u>-</u>	<u>1,570,929</u>
Fund balances:				
Non-spendable	28,333	-	-	28,333
Restricted	-	-	752,618	752,618
Committed	106,098	-	-	106,098
Assigned	25,462	-	-	25,462
Unassigned	876,875	-	-	876,875
Total fund balances	<u>1,036,768</u>	<u>-</u>	<u>752,618</u>	<u>1,789,386</u>
Total liabilities and fund balances	<u>\$ 2,181,301</u>	<u>\$ 426,396</u>	<u>\$ 752,618</u>	<u>\$ 3,360,315</u>

The accompanying notes to financial statements are an integral part of this statement.

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

Fund balances—total governmental funds		\$ 1,789,386
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		16,717,472
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds</p> <p style="padding-left: 20px;">Deferred savings from refunding bonds</p>		255,529
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p> <p style="padding-left: 20px;">Deferred pension investment earnings</p> <p style="padding-left: 20px;">Deferred pension contributions</p>	<p>(364,435)</p> <p><u>423,274</u></p>	58,839
<p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.</p> <p style="padding-left: 20px;">Net pension liability</p> <p style="padding-left: 20px;">Bonds payable</p> <p style="padding-left: 20px;">Capital leases payable</p> <p style="padding-left: 20px;">Accrued interest payable</p> <p style="padding-left: 20px;">Accrued sick leave</p>	<p>(3,265,773)</p> <p>(10,375,000)</p> <p>(2,493,862)</p> <p>(181,294)</p> <p><u>(325,614)</u></p>	<u>(16,641,543)</u>
Net position of governmental activities		<u>\$ 2,179,683</u>

The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes -				
Property	\$ 1,797,393	\$ -	\$ 280,022	\$ 2,077,415
Motor vehicles	359,916	-	-	359,916
Utility	566,553	-	-	566,553
Tuition	22,100	-	-	22,100
Transportation fees	37,732	-	-	37,732
Interest income	8,037	-	-	8,037
Other local revenues	28,266	23,000	-	51,266
Insurance proceeds	-	-	794,376	794,376
Intergovernmental - State	14,283,652	966,805	1,166,283	16,416,740
Intergovernmental - Indirect federal	-	2,062,821	-	2,062,821
Intergovernmental - Direct federal	144,301	-	-	144,301
Total revenues	<u>17,247,950</u>	<u>3,052,626</u>	<u>2,240,681</u>	<u>22,541,257</u>
Expenditures:				
Current:				
Instruction	9,310,471	2,160,950	-	11,471,421
Support services:				
Students	1,073,907	210,283	-	1,284,190
Instructional staff	354,492	303,712	-	658,204
District administration	500,711	109,738	-	610,449
School administration	1,612,423	4,310	-	1,616,733
Business and other support services	635,086	34,797	-	669,883
Operation and maintenance of plant	1,697,911	-	-	1,697,911
Student transportation	1,786,311	-	-	1,786,311
Food service operations	20,810	-	-	20,810
Community services	5,374	228,836	-	234,210
Facilities acquisition and construction	-	-	49,313	49,313
Debt service	319,512	-	1,375,630	1,695,142
Total expenditures	<u>17,317,008</u>	<u>3,052,626</u>	<u>1,424,943</u>	<u>21,794,577</u>
Excess (deficiency) of revenues over expenditures	<u>(69,058)</u>	<u>-</u>	<u>815,738</u>	<u>746,680</u>
Other financing sources (uses):				
Proceeds from issuance of debt	-	-	1,480,000	1,480,000
Payment to refunded bond escrow agent	-	-	(1,480,000)	(1,480,000)
Gain on sale of equipment	14,948	-	-	14,948
Transfers in	133,533	2,494	926,130	1,062,157
Transfers out	-	(2,494)	(996,805)	(999,299)
Total other financing sources and uses	<u>148,481</u>	<u>-</u>	<u>(70,675)</u>	<u>77,806</u>
Net change in fund balances	79,423	-	745,063	824,486
Fund balances, June 30, 2014	<u>957,345</u>	<u>-</u>	<u>7,555</u>	<u>964,900</u>
Fund balances, June 30, 2015	<u>\$ 1,036,768</u>	<u>\$ -</u>	<u>\$ 752,618</u>	<u>\$ 1,789,386</u>

The accompanying notes to financial statements are an integral part of this statement.

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

Net change in fund balances—total governmental funds \$ 824,486

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	500,122	
Adjustment to gain	(12,397)	
Depreciation expense	<u>(1,319,974)</u>	(832,249)

Bond and capital lease proceeds, including related premiums and discounts, are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net position.

Bonds and refunding bonds issued	(1,480,000)	
Capital lease proceeds	(968,084)	
Payments to refunded bond escrow agent	<u>1,480,000</u>	(968,084)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		(4,614)
Amortization of deferred savings from refunding bonds		(37,932)
Accrued interest payable		224,030

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenue	2,027,806	
KTRS on-behalf pension	(2,027,806)	
CERS contributions	423,274	
Pension expense	<u>(261,262)</u>	162,012

Governmental funds do not report the effect of gain or losses on refunding of debt, whereas these amounts are deferred and amortized in the statement of activities.

29,794

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.

1,249,816

Change in net position of governmental activities

\$ 647,259

The accompanying notes to financial statements are an integral part of this statement.

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

	Food Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 33,469
Receivables (net of allowances for uncollectibles)	
Intergovernmental - federal	-
Other	-
Inventories	24,473
Total current assets	57,942
Noncurrent assets:	
Capital assets, net of accumulated depreciation	41,335
Total noncurrent assets	41,335
Total assets	99,277
Deferred Outflows of Resources	
Deferred pension contributions	85,442
Total deferred outflows of resources	85,442
Total assets and deferred outflows	\$ 184,719
Liabilities	
Current liabilities:	
Accounts payable	\$ 3,916
Total current liabilities	3,916
Long-term liabilities:	
Net pension liability	659,227
Total liabilities	663,143
Deferred Inflows of Resources	
Deferred earnings on pension investments	73,565
Total deferred inflows of resources	73,565
Net Position	
Net investment in capital assets	41,335
Restricted	(593,324)
Total net position	(551,989)
Total liabilities, deferred inflows, and net position	\$ 184,719

The accompanying notes to financial statements are an integral part of this statement.

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

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 129,126
Revenue from local sources	-
Revenue from state sources (on-behalf)	129,495
Total operating revenues	<u>258,621</u>
Operating expenses:	
Salaries and wages	540,415
Employee benefits	219,759
Materials and supplies	731,986
Depreciation	5,440
Other operating expenses	22,369
Total operating expenses	<u>1,519,969</u>
Operating income (loss)	<u>(1,261,348)</u>
Nonoperating revenues (expenses):	
Federal grants	1,217,276
Investment income	153
Donated commodities	97,964
Transfers out	(62,858)
State grants	13,460
Total nonoperating revenues (expenses)	<u>1,265,995</u>
Increase in net position	4,647
Net position, June 30, 2014, as restated	<u>(556,636)</u>
Net position, June 30, 2015	<u><u>\$ (551,989)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Food Service Fund
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 129,126
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(615,083)
Payments to employees	(663,383)
Other payments	(22,369)
Net cash used for operating activities	(1,171,709)
Cash flows from noncapital financing activities:	
Government grants	1,254,415
Transfers Out	(62,858)
Net cash provided by noncapital and related financing activities	1,191,557
Cash flows from capital and related financing activities:	
Purchases of capital assets	(23,651)
Net cash used for capital and related financing activities	(23,651)
Cash flows from investing activities:	
Interest received on investments	153
Net cash provided by investing activities	153
Net decrease in cash and cash equivalents	(3,650)
Cash and cash equivalents, June 30, 2014	37,119
Cash and cash equivalents, June 30, 2015	\$ 33,469
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,261,348)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	5,440
Donated commodities	97,964
Net pension adjustment	(32,704)
Change in assets and liabilities:	
Inventory	17,029
Accounts receivable	1,910
Accounts payable	-
Net cash provided by (used for) operating activities	\$ (1,171,709)
Non-cash items:	
Donated commodities	\$ 97,964
On-behalf payments	129,495

The accompanying notes to financial statements are an integral part of this statement.

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

	<u>Activity Funds</u>
Assets	
Cash and cash equivalents	\$ 218,892
Accounts receivable	-
Total assets	<u>218,892</u>
 Liabilities	
Accounts payable	3,177
Interfund payable	-
Due to students	215,715
Total liabilities	<u>218,892</u>
 Net position held in trust	 <u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 1,915,300	\$ 1,795,300	\$ 1,797,393	\$ 2,093
Motor vehicles	330,000	330,000	359,916	29,916
Utilities	550,000	550,000	566,553	16,553
Tuition fees	19,000	19,000	22,100	3,100
Transportation fees	31,000	31,000	37,732	6,732
Interest income	5,500	5,500	8,037	2,537
Other local revenues	40,000	55,000	28,266	(26,734)
Intergovernmental - State	14,181,234	14,176,675	14,283,652	106,977
Intergovernmental - Indirect federal	-	-	-	-
Intergovernmental - Direct federal	105,822	105,822	144,301	38,479
Total revenues	<u>17,177,856</u>	<u>17,068,297</u>	<u>17,247,950</u>	<u>179,653</u>
Expenditures:				
Current:				
Instruction	9,442,208	9,552,651	9,310,471	242,180
Support services:				
Students	1,020,086	1,066,569	1,073,907	(7,338)
Instructional staff	361,463	364,635	354,492	10,143
District administration	621,237	568,204	500,711	67,493
School administration	1,563,856	1,603,079	1,612,423	(9,344)
Business and other support services	567,966	621,643	635,086	(13,443)
Operation and maintenance of plant	1,765,631	1,671,507	1,697,911	(26,404)
Student transportation	1,875,298	1,835,895	1,786,311	49,584
Food service operations	-	-	20,810	(20,810)
Community services	655	10,655	5,374	5,281
Debt service	307,977	319,512	319,512	-
Contingency	367,372	433,176	-	433,176
Total expenditures	<u>17,893,749</u>	<u>18,047,526</u>	<u>17,317,008</u>	<u>730,518</u>
Excess (deficiency) of revenues over expenditures	<u>(715,893)</u>	<u>(979,229)</u>	<u>(69,058)</u>	<u>910,171</u>
Other financing sources (uses):				
Gain on sale of equipment	20,000	20,000	14,948	(5,052)
Transfers in	142,889	137,243	133,533	(3,710)
Transfers out	-	-	-	-
Total other financing sources and uses	<u>162,889</u>	<u>157,243</u>	<u>148,481</u>	<u>(8,762)</u>
Net change in fund balances	(553,004)	(821,986)	79,423	901,409
Fund balances, June 30, 2014	<u>553,004</u>	<u>821,986</u>	<u>957,345</u>	<u>135,359</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,036,768</u>	<u>\$ 1,036,768</u>

The accompanying notes to financial statements are an integral part of this statement.

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	23,000	23,000	-
Intergovernmental - State	886,167	1,020,006	966,805	(53,201)
Intergovernmental - Indirect federal	1,944,459	2,074,857	2,062,821	(12,036)
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>2,830,626</u>	<u>3,117,863</u>	<u>3,052,626</u>	<u>(65,237)</u>
Expenditures:				
Current:				
Instruction	2,063,090	2,244,762	2,160,950	83,812
Support services:				
Students	158,406	165,999	210,282	(44,283)
Instructional staff	233,443	298,841	303,712	(4,871)
District administration	141,878	144,137	109,738	34,399
School administration	5,000	5,000	4,310	690
Business	-	33,696	34,797	(1,101)
Operation and maintenance of plant	-	-	-	-
Student transportation	-	-	-	-
Community services	222,808	226,855	228,837	(1,982)
Debt service	-	-	-	-
Total expenditures	<u>2,824,625</u>	<u>3,119,290</u>	<u>3,052,626</u>	<u>66,664</u>
Excess (deficiency) of revenues over expenditures	<u>6,001</u>	<u>(1,427)</u>	<u>-</u>	<u>1,427</u>
Other financing sources (uses):				
Transfers in	-	2,494	2,494	-
Transfers out	<u>(6,001)</u>	<u>(2,494)</u>	<u>(2,494)</u>	<u>-</u>
Total other financing sources and uses	<u>(6,001)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	(1,427)	-	1,427
Fund balances, June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ (1,427)</u>	<u>\$ -</u>	<u>\$ 1,427</u>

The accompanying notes to financial statements are an integral part of this statement.

**LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

(1) REPORTING ENTITY

The Lewis County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Lewis County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Lewis County School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

District-wide Financial Statements:

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

The District-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 program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a major fund of the District.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. 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.

Construction Fund - The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan.

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

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.

Proprietary Fund Type

The District utilizes the proprietary fund type to account for the major fund: Food Service. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of USDA commodities on the financial statements.

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. 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. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include 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.

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 that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions - There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, "available" means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year-end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Budgetary Process

The District is required by state law to adopt annual budgets. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 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.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. The District had a prepaid non-spendable fund balance of \$28,333 in the General Fund at June 30, 2015.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the District had \$752,618 restricted in the Construction Fund for future construction.

Committed fund balances are those amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$106,098 for sick leave as of June 30, 2015.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. The amount assigned related to encumbrances at June 30, 2015, was \$25,462 in the General Fund. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles, (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2015, the carrying amount of the District's combined deposits (cash and cash equivalents) was \$1,837,765 and the combined bank balances totaled \$2,147,765. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2015.

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

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) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

(4) PROPERTY TAXES

Revenues and other governmental fund financial resource increments (i.e. bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available to finance expenditures of the fiscal periods. Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, collection date is the period from November 1 through December 31. Collections from the period November 1 through November 30 receive a two percent discount. The due date is the period from December 1 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien filed by the County Attorney.

(5) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky (the "Commonwealth") 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 members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

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

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

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

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount 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. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members 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, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding policy: In order to fund the post-retirement healthcare benefit, six percent of the gross annual payroll of members before July 1, 2008 is contributed. Three percent is paid by member contributions and three quarters percent (.75%) from state 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 did not report a liability for its proportionate share of the net pension liability 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 State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net Pension liability	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	64,327,679
	<u>\$ 64,327,679</u>

The net pension liability 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 was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.313%.

For the year ended June 30, 2014, the District recognized pension expense of \$3,152,187 and revenue of \$3,152,187 for support provided by the State.

Actuarial Methods and 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:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed

Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	5.23%
Municipal Bond Index Rate	4.35%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

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.

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:

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

Discount Rate: 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 members 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.

The following table presents the net pension liability of the Commonwealth's proportionate share that is associated with the District, calculated using the discount rate of 5.23%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	1% Decrease (4.23%)	Current discount rate (5.23%)	1% Increase (6.23%)
Commonwealth's proportionate share of net pension liability	\$ 84,894,000	\$ 64,327,679	\$ 53,298,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.67% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the District's proportion was 0.121%.

For the year ended June 30, 2015, the District recognized pension expense of \$314,000. At June 30, 2015, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$508,716. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$438,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 87,600
2017	87,600
2018	87,600
2019	87,600
2019	<u>87,600</u>
	<u>\$ 438,000</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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.

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 asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

Discount Rate: 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 members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment

rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 %) or 1-percentage-point higher (8.75 %) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
District's proportionate share of the net pension liability	\$ 5,165,000	\$ 3,925,000	\$ 2,829,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015 and 2014, there were no payables to CERS.

(6) LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2015, the estimate for those employees over the age of 55 with 5 or more years of service is \$325,614, of which \$106,098 is short term and \$219,516 is long-term, both recorded on the District-wide financial statements.

(7) LONG-TERM DEBT

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lewis County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The maturity date, original amounts of the issue and interest rates are summarized below:

Bond Issue	Original Amount	Maturity Dates	Interest Rates
2005 Series Bond	\$ 1,920,000	8/1/2025	3.0-4.25%
2006 Series Bond	1,450,000	10/1/2026	3.6-4.1%
2008R Series Bond	2,250,000	12/1/2019	2.75-3.25%
2008BR Series Bond	1,145,000	12/1/2016	2.15-3.3%
2008C Series Bond	2,690,000	9/1/2028	3.5-4.75%
2010 Series Revenue Refunding Bond	2,195,000	4/1/2021	2.00-2.625%
2012 Series Bond	1,110,000	6/1/1932	1.0-3.375%
2012R Series Bond	2,070,000	8/1/2023	1.10-2.25%
2015R Series Bond	1,480,000	8/1/2025	2.0-2.5%

The District has entered into “participation agreements” with the School Facilities Construction Commission (the “Commission”). The Kentucky General Assembly created the Commission for the purposes of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issued. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

A summary of activity in bond obligations and other debts is as follows:

Description	Balance at July 1, 2014	Additions	Reductions	Balance at June 30, 2015
General obligation bonds - \$16,310,000 originally issued with interest rates ranging from 1.0% to 4.75%	\$ 11,275,000	\$ 1,480,000	\$ 2,380,000	\$ 10,375,000
KISTA Loans	1,875,594	968,084	349,816	2,493,862
Accumulated unpaid sick leave benefits	321,000	4,614	-	325,614
	<u>\$ 13,471,594</u>	<u>\$ 2,452,698</u>	<u>\$ 2,729,816</u>	<u>\$ 13,194,476</u>

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

YEAR	LEWIS COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2016	\$ 698,746	\$ 263,491	\$ 271,254	\$ 110,299	\$ 1,343,790
2017	717,403	212,506	247,597	81,103	1,258,609
2018	734,972	194,178	225,028	75,306	1,229,484
2019	759,551	174,490	230,449	69,561	1,234,051
2020	777,390	152,379	232,610	63,524	1,225,903
2021-2025	2,540,802	454,584	1,154,198	220,313	4,369,897
2026-2030	1,021,606	81,834	623,394	71,586	1,798,420
2031-2032	-	-	140,000	7,088	147,088
	<u>\$ 7,250,470</u>	<u>\$ 1,533,462</u>	<u>\$ 3,124,530</u>	<u>\$ 698,780</u>	<u>\$ 12,607,242</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2015, is as follows:

YEAR	LEWIS COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2016	\$ 335,695	\$ 61,774	\$ 73,562	\$ 8,289	\$ 479,320
2017	315,925	47,285	75,900	6,157	445,267
2018	277,550	39,387	79,186	3,831	399,954
2019	256,092	32,352	81,325	1,322	371,091
2020	228,656	25,681	-	-	254,337
2021-2025	769,971	51,862	-	-	821,833
	<u>\$ 2,183,889</u>	<u>\$ 258,341</u>	<u>\$ 309,973</u>	<u>\$ 19,599</u>	<u>\$ 2,771,802</u>

(8) CAPITAL ASSETS

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

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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 Life in Years</u>
Buildings and Improvements	40
Land Improvements	20
Technology Equipment	5
Vehicles	5-14
Food Service Equipment	7
Furniture and Fixtures	7
Other	10

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

	Restated Balance at June 30, 2014	Additions	Deductions	Balance at June 30, 2015
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 272,556	\$ -	\$ -	\$ 272,556
Depreciable:				
Land improvements	2,055,778	-	-	2,055,778
Buildings and improvements	24,940,158	-	1,500	24,938,658
Technology equipment	2,634,098	81,043	607,760	2,107,381
General equipment	771,526	10,100	180,084	601,542
Vehicles	4,349,528	408,979	533,089	4,225,418
Totals	<u>\$ 35,023,644</u>	<u>\$ 500,122</u>	<u>\$ 1,322,433</u>	<u>\$ 34,201,333</u>
Less: accumulated depreciation				
Land improvements	1,122,088	84,334	-	1,206,422
Buildings and improvements	10,637,835	718,865	1,500	11,355,200
Technology equipment	2,212,242	195,536	607,760	1,800,018
General equipment	576,291	37,658	167,687	446,262
Vehicles	2,925,467	283,581	533,089	2,675,959
Total accumulated depreciation	<u>17,473,923</u>	<u>1,319,974</u>	<u>1,310,036</u>	<u>17,483,861</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 17,549,721</u>	<u>\$ (819,852)</u>	<u>\$ 12,397</u>	<u>\$ 16,717,472</u>
<u>Business-Type Activities</u>				
Food service and equipment	\$ 393,184	\$ 23,651	\$ 106,033	\$ 310,802
Technology equipment	23,950	-	9,848	14,102
	<u>417,134</u>	<u>23,651</u>	<u>115,881</u>	<u>324,904</u>
Less: accumulated depreciation				
Food service equipment	360,512	5,440	96,485	269,467
Technology equipment	23,950	-	9,848	14,102
	<u>384,462</u>	<u>5,440</u>	<u>106,333</u>	<u>283,569</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 32,672</u>	<u>\$ 18,211</u>	<u>\$ 9,548</u>	<u>\$ 41,335</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 1,004,248
District administration	13,738
School administration	1,890
Business support services	234
Plant operation & maintenance	15,463
Student transportation	284,401
	<u>\$ 1,319,974</u>

(9) INSURANCE AND RELATED ACTIVITIES

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

(10) COMMITMENTS AND CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

(12) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Building (FSPK)	General Fund	Insurance & Salary	\$ 70,675
Operating	Food Service	General Fund	Indirect Cost	62,858
Debt Service	Building (FSPK)	Debt Service	Bond Payments	716,000
Debt Service	Capital Outlay	Debt Service	Bond Payments	210,075

(14) ON-BEHALF PAYMENTS

For the year ended June 30, 2015, total payments of \$6,220,346 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and SFCC debt service. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures, and Changes in Fund Balance.

On-behalf payments at June 30, 2015 consisted of the following:

Teacher Retirement	\$ 1,124,381
Health & Life Insurance	2,563,262
Technology	55,398
SFCC Debt Service	367,159
KISTA Capital Lease Payments	<u>82,340</u>
Recognized at the fund level	4,192,540
Additional pension expense recognized at the Government-wide level	<u>2,027,806</u>
Total on-behalf	<u>\$ 6,220,346</u>

(15) FUND DEFICIT

As of June 30, 2015, the Food Service Fund had a negative net position of \$551,989. This deficit resulted from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the recording of the fund's proportionate share of net pension liability. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

(16) CHANGE IN ACCOUNTING PRINCIPLE

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and to adjust beginning capital assets.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net position as previously reported at June 30, 2014	\$ 4,670,689	\$ 122,807	\$ 4,793,496
Prior period adjustment implementation of GASB 68: Net pension liability (measurement date as of June 30, 2013)	(3,805,110)	(768,125)	(4,573,235)
Deferred outflows District contributions made during fiscal year 2014	<u>436,164</u>	<u>88,071</u>	<u>524,235</u>
Total GASB 68 prior period adjustment	(3,368,946)	(680,054)	(4,049,000)
Prior period adjustments to capital assets	230,681	611	231,292
Total prior period adjustments	<u>(3,138,265)</u>	<u>(679,443)</u>	<u>(3,817,708)</u>
Net position as restated, June 30, 2014	<u>\$ 1,532,424</u>	<u>\$ (556,636)</u>	<u>\$ 975,788</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	Reporting Fiscal Year (Measurement Date)
	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	
District's proportion of the net pension liability	0.121%
District's proportionate share of the net pension liability	\$ 3,925,000
District's covered-employee payroll	\$ 2,775,199
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.431%
Plan fiduciary net position as a percentage of the total pension liability	66.800%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
District's proportion of the net pension liability	0.313%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	\$ 64,327,679
Total	\$ 64,327,679
District's covered-employee payroll	\$ 9,810,348
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	45.590%

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

**LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 508,716	\$ 524,235
Contributions in relation to the contractually required contribution	508,716	524,235
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 2,878,981	\$ 2,775,199
District's proportionate share of the net pension liability as a percentage of its 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	\$ 9,698,343	\$ 9,810,348
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%

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

**LEWIS COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

(1) CHANGES OF ASSUMPTIONS

KTRS

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

CERS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0% to 8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

SUPPLEMENTARY INFORMATION

**LEWIS COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ -	\$ -	\$ 79,119	\$ -	\$ 79,119
Accounts receivable	-	-	673,499	-	673,499
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,618</u>	<u>\$ -</u>	<u>\$ 752,618</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Assigned	-	-	-	-	-
Restricted	-	-	752,618	-	752,618
Total fund balance	<u>-</u>	<u>-</u>	<u>752,618</u>	<u>-</u>	<u>752,618</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,618</u>	<u>\$ -</u>	<u>\$ 752,618</u>

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

	Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property taxes	\$ -	\$ 280,022	\$ -	\$ -	\$ 280,022
Earnings on investments	-	-	-	-	-
Intergovernmental - State	210,075	506,708	-	449,500	1,166,283
Insurance proceeds	-	-	794,376	-	794,376
Total revenues	<u>210,075</u>	<u>786,730</u>	<u>794,376</u>	<u>449,500</u>	<u>2,240,681</u>
EXPENDITURES:					
Current -					
Facilities acquisition and construction	-	-	49,313	-	49,313
Debt service	-	-	-	1,375,630	1,375,630
Total expenditures	<u>-</u>	<u>-</u>	<u>49,313</u>	<u>1,375,630</u>	<u>1,424,943</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>210,075</u>	<u>786,730</u>	<u>745,063</u>	<u>(926,130)</u>	<u>815,738</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of debt	-	-	-	1,480,000	1,480,000
Payment to refunded bond escrow agent	-	-	-	(1,480,000)	(1,480,000)
Operating transfers in	-	-	-	926,130	926,130
Operating transfers out	(210,075)	(786,730)	-	-	(996,805)
Total other financing sources (uses)	<u>(210,075)</u>	<u>(786,730)</u>	<u>-</u>	<u>926,130</u>	<u>(70,675)</u>
NET CHANGE IN FUND BALANCES	-	-	745,063	-	745,063
FUND BALANCE JUNE 30, 2014	<u>-</u>	<u>-</u>	<u>7,555</u>	<u>-</u>	<u>7,555</u>
FUND BALANCE JUNE 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,618</u>	<u>\$ -</u>	<u>\$ 752,618</u>

**LEWIS COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2015**

	2005 Bond Fund	2006 Bond Fund	2008R Bond Fund	2008BR Bond Fund	2008C Bond Fund	2010R Bond Fund	2012 Bond Fund	2012R Bond Fund	2009R KISTA Energy	2015R Bond Fund	Totals Debt Service Fund
ASSETS:											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE:											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:											
Restricted	-	-	-	-	-	-	-	-	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LEWIS COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015**

	2005 Bond Fund	2006 Bond Fund	2008R Bond Fund	2008BR Bond Fund	2008C Bond Fund	2010R Bond Fund	2012 Bond Fund	2012R Bond Fund	2009R KISTA Energy	2015R Bond Fund	Totals Debt Service Fund
REVENUES:											
Intergovernmental - State	\$ 70,311	\$ 57,868	\$ 13,545	\$ 69,960	\$ 41,749	\$ -	\$ 70,275	\$ 43,451	\$ 82,340	\$ -	\$ 449,499
Interest income	-	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>70,311</u>	<u>57,868</u>	<u>13,545</u>	<u>69,960</u>	<u>41,749</u>	<u>-</u>	<u>70,275</u>	<u>43,451</u>	<u>82,340</u>	<u>-</u>	<u>449,499</u>
EXPENDITURES:											
Debt service	117,190	91,461	256,681	153,188	174,323	222,200	70,275	207,971	82,340	-	1,375,629
Total expenditures	<u>117,190</u>	<u>91,461</u>	<u>256,681</u>	<u>153,188</u>	<u>174,323</u>	<u>222,200</u>	<u>70,275</u>	<u>207,971</u>	<u>82,340</u>	<u>-</u>	<u>1,375,629</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(46,879)</u>	<u>(33,593)</u>	<u>(243,136)</u>	<u>(83,228)</u>	<u>(132,574)</u>	<u>(222,200)</u>	<u>-</u>	<u>(164,520)</u>	<u>-</u>	<u>-</u>	<u>(926,130)</u>
OTHER FINANCING SOURCES (USES):											
Proceeds from issuance of debt	-	-	-	-	-	-	-	-	-	1,480,000	1,480,000
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	(1,480,000)	(1,480,000)
Operating transfers in	46,879	33,593	243,136	83,228	132,574	222,200	-	164,520	-	-	926,130
Total other financing sources (uses)	<u>46,879</u>	<u>33,593</u>	<u>243,136</u>	<u>83,228</u>	<u>132,574</u>	<u>222,200</u>	<u>-</u>	<u>164,520</u>	<u>-</u>	<u>-</u>	<u>926,130</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2015
Lewis County High School	\$ 68,734	\$ 330,107	\$ 327,375	\$ 71,466	\$ -	\$ -	\$ 71,466
Lewis County Central Elementary	34,738	97,165	98,614	33,289	-	-	33,289
Garrison Elementary	33,410	35,438	29,233	39,615	-	-	39,615
Tollesboro Elementary	31,971	41,754	45,213	28,512	-	-	28,512
Laurel Elementary	16,073	24,571	26,413	14,231	-	-	14,231
Lewis County Middle School	28,026	55,036	64,542	18,520	-	-	18,520
Foster Meade Area Vocational	6,176	46,136	39,053	13,259	-	3,177	10,082
	<u>\$ 219,128</u>	<u>\$ 630,207</u>	<u>\$ 630,443</u>	<u>\$ 218,892</u>	<u>\$ -</u>	<u>\$ 3,177</u>	<u>\$ 215,715</u>

**LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
LEWIS COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disburse- ment	Cash Balance June 30, 2015	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2015
Academic Team	\$ 1	\$ 1,513	\$ 1,514	\$ -	\$ -	\$ -
Art	254	1,381	1,634	1	-	1
Autism Awareness	1,094	3,817	4,868	43	-	43
Band	454	32,867	32,133	1,188	-	1,188
Baseball	158	7,046	5,962	1,242	-	1,242
Basketball - Boys	2,355	33,541	31,435	4,461	-	4,461
Basketball - Girls	861	26,509	21,587	5,783	-	5,783
Beta Club	44	1,230	1,051	223	-	223
Boys Golf	1,684	5,277	4,101	2,860	-	2,860
Cheerleaders	3,589	23,974	25,781	1,782	-	1,782
Chorus	35	-	-	35	-	35
Seniors 2015	1,227	1,385	2,612	-	-	-
Juniors 2016	2,665	8,525	5,857	5,333	-	5,333
Sophomores 2017	-	4,886	2,700	2,186	-	2,186
Freshmans 2018	-	635	317	318	-	318
Colorguard	698	4,063	4,182	579	-	579
College Class	-	20,122	17,806	2,316	-	2,316
Cross Country	1	1,157	1,158	-	-	-
Drama	1,130	13,296	13,191	1,235	-	1,235
FCA	81	-	-	81	-	81
Football	4,789	18,392	19,377	3,804	-	3,804
Girls Golf	1,746	2,097	1,545	2,298	-	2,298
Girls Volleyball	4,099	5,305	6,418	2,986	-	2,986
Library	281	-	-	281	-	281
Math Support	1	-	1	-	-	-
Office	1,521	7,932	9,351	102	-	102
Pep Club	154	1,113	947	320	-	320
Poster Machine	116	200	-	316	-	316
ROTC	428	7,483	4,311	3,600	-	3,600
Saturday Junior League	115	-	115	-	-	-
Scholarship Fund	2,450	-	1,500	950	-	950
Senior Trip	-	3,800	3,800	-	-	-
Softball	3,668	14,542	15,875	2,335	-	2,335
Spanish	285	-	-	285	-	285
Sport Gate	20,908	52,169	57,921	15,156	-	15,156
Student Enhancement	15	8,033	7,224	824	-	824
Tennis	309	2,331	1,846	794	-	794
Track	1	4,084	4,085	-	-	-
TSA	848	60	908	-	-	-
Yearbook	10,005	10,892	13,718	7,179	-	7,179
Youth Service Center	664	450	544	570	-	570
	<u>\$ 68,734</u>	<u>\$ 330,107</u>	<u>\$ 327,375</u>	<u>\$ 71,466</u>	<u>\$ -</u>	<u>\$ 71,466</u>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-13	\$ 1,101,644	\$ 34,208 *
Title I Grants to Local Educational Agencies	84.010	3100002-14	1,186,446	<u>1,114,421 *</u>
				<u>1,148,629 *</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	477,562	105
Special Education Grants to States - IDEA, Part B	84.027	3810002-13	450,293	44,454
Special Education Grants to States - IDEA, Part B	84.027	3810002-14	460,193	442,558
Special Education Preschool Grants	84.173	3800002-13	14,081	2,492
Special Education Preschool Grants	84.173	3800002-12	14,404	3,599
				<u>493,208</u>
Race to the Top	84.413	3960002-11	49,086	27,821
Title VI - Rural & Low Income	84.358	3140002-14	48,587	48,587
Improving Teacher Quality State Grants	84.367	3230002-12	191,468	2,323
Improving Teacher Quality State Grants	84.367	3230002-13	183,915	13,545
Improving Teacher Quality State Grants	84.367	3230002-14	183,738	164,592
				<u>180,460</u>
Vocational Education Basic Grants to States	84.048	3710002-13	33,019	9,187
Vocational Education Basic Grants to States	84.048	3710002-14	36,812	31,128
				<u>40,315</u>
Total U.S. Department of Education				<u>1,939,020</u>
<u>U.S. Department of Defense</u>				
Pass-through State Department of Military Affairs:				
ROTC	12.000	504A	N/A	<u>60,796</u>
Total U.S. Department of Defense				<u>60,796</u>

**LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
<u>U.S. Department of Labor</u>				
Pass-through Buffalo Trace Area Development District:				
Workforce Investment Act - Youth Activity	17.255	5884	130,000	1,801 *
Workforce Investment Act - Youth Activity	17.255	588A	145,000	122,000 *
Total U.S. Department of Labor				<u>123,801 *</u>
<u>U.S. Department of Agriculture</u>				
Pass-through State Department of Education:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-15	-	704,408
National School Lunch Program	10.555	7750002-14	-	213,814
School Breakfast Program	10.553	7760005-15	-	241,333
School Breakfast Program	10.553	7760005-14	-	77,720
Cash Assistance Subtotal				<u>1,237,275</u>
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	011-0100	-	97,964
Total Child Nutrition Cluster				<u>1,335,239</u>
Total U.S. Department of Agriculture				<u>1,335,239</u>
Total Federal Assistance				<u>\$ 3,458,856</u>

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

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

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 represent 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 market value of the commodities received and disbursed. At June 30, 2015, the organization had total inventory of \$24,473.



**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**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Lewis County School District
Vanceburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; 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 the Lewis County School District (the "District") as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 the 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 District in a separate letter dated October 23, 2015.

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.

Kelley Galloway Smith DeLoach, PSC

October 23, 2015
Ashland, Kentucky



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Lewis County School District
Vanceburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lewis 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 the District's major federal programs for the year ended June 30, 2015. Lewis 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 Lewis County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in 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 Lewis 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 Lewis County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 Lewis 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 the 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 Lewis 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.

Purpose of this Report

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.

Kelley Galloway Smith Bealby, PSC

October 23, 2015
Ashland, Kentucky

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

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes x no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2015:

Title I (84.010)
Workforce Investment Act (17.255)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee x yes _____ no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

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

There were no findings in the prior year.

**LEWIS COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2015**

No corrective action plan needed in the current year.



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Smith **G**oolsby, PSC

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Lewis County School District
Vanceburg, Kentucky

In planning and performing our audit of the financial statements of Lewis County School District (the "District") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 23, 2015, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Kelley Galloway Smith Goolsby, PSC

October 23, 2015
Ashland, Kentucky

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

2015-1 1099 Wages

Statement of Condition: We noted one person's 1099 wages were not correct.

Criteria for Condition: Under IRC Section 6041(a), a person, business and/or nonprofit considered to be engaged in a trade or business making payments of salaries, wages, commissions, fees and other forms of compensation to non-employees for services rendered aggregating \$600 or more must file a Form 1099-Misc for that year.

Cause of Condition: Payments were miscoded in the system.

Effect of the Condition: The person reported fewer wages than they should have.

Recommendation of the Condition: We recommend that more care be taken when coding payments to individuals to ensure that the proper amounts are included for Form 1099's.

Management Response: The district has identified the cause of the condition and will code applicable payments correctly going forward.

2015-2 Checks Written to Cash – Central Elementary & Lewis County High School

Statement of Condition: We noted that two schools, Lewis County Central Elementary and Lewis County High School, wrote checks to cash for start-up funds.

Criteria for Condition: Per the Redbook (Accounting Procedures for Kentucky School Activity Funds): "Checks shall not be made payable to "CASH", to the "School" or to the "Bank".

Cause of Condition: Lack of knowledge of the Redbook requirements.

Effect of the Condition: Making checks out to cash or bank increases the opportunity for fraud.

Recommendation of the Condition: We recommend that all activity funds follow the Redbook requirements and not write checks to cash. The checks should be made payable to the person responsible for the start-up funds in these instances.

Management Response: Applicable school bookkeepers and principals have been made aware of the condition. These schools will no longer make checks out to cash, but will instead make the check payable to the person responsible for cashing the check.

2015-3 Ticket Sales – Lewis County Middle School & Lewis County High School

Statement of Condition: We noted that two schools, Lewis County Middle School and Lewis County High School, are not completing the form (F-SA-1) properly when making ticket sales. It was noted that the middle school is using the correct form but neither the ticket taker nor the person in charge of sales signed the form. It was also noted that the high school is using a version of the correct form but one of the signature lines had been removed.

Criteria for Condition: Per the Redbook (Accounting Procedures for Kentucky School Activity Funds): “The person in charge of sales, the ticket taker, and the school treasurer sign the Requisition and Report of Ticket Sales (Form F-SA-1).”

Cause of Condition: Lack of knowledge of the Redbook requirements.

Effect of the Condition: Accountability for ticket sales is not being documented.

Recommendation of the Condition: We recommend that the proper Form F-SA-1 be completed in accordance with Redbook requirements.

Management Response: Applicable school bookkeeper and principals have been made aware of the condition. Going forward, these schools will use the correct form and will complete them in accordance with Redbook requirements.

2015-4 Shortages on Ticket Sales – Lewis County High School

Statement of Condition: We noted several instances where the actual amount of cash received from ticket sales was less than the expected amount based on the number of tickets given out. We noted four instances where this difference was greater than \$10.00.

Criteria for Condition: Per the Redbook (Accounting Procedures for Kentucky School Activity Funds): “The number of tickets collected is reconciled with the number of tickets sold on Requisition and Report of Ticket Sales (Form F-SA-1). The amount of cash collected and the total sales amount is compared to the amount to be deposited. The total amount of cash and checks collected is compared to the number of tickets sold with any Cash Over/Short identified before turning the form and money into the school treasurer.

Cause of Condition: Unknown.

Effect of the Condition: The gate receipts are short compared to the number of tickets sold.

Recommendation of the Condition: While shortages will occur due to human error, we recommend that more care be taken to reduce the shortages and obtain possible reasons for any shortages from the ticket takers and noted on the Form F-SA-1.

Management Response: Lewis County High School’s bookkeeper and principal have been made aware of the condition. Staff have been made aware that more care needs to be taken regarding the ticket sale and reporting process.

2015-5 Receipt Numbers Not on Deposit Ticket – Lewis County High School

Statement of Condition: We noted that Lewis County High School did not put the receipt number range on a deposit ticket.

Criteria for Condition: Redbook states that the deposit slip shall note the receipt numbers in the deposit.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Unable to easily determine what was included in the deposit.

Recommendation of the Condition: We recommend that all deposit tickets include the receipt numbers to comply with the Redbook.

Management Response: Lewis County High School's bookkeeper and principal have been made aware of the condition. The Lewis County High School bookkeeper will begin putting receipt numbers on deposit slips.

2015-6 Student Vending – Garrison Elementary & Lewis County Middle School

Statement of Condition: We noted that the student vending activity fund had student generated and teacher generated funds being deposited. It was also noted that some of the activity fund monies is being used to purchase educational supplies.

Criteria for Condition: Per the Redbook student generated funds must be spent to benefit the students and staff generated funds can be used as regular general funds.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Student generated and staff generated monies are not segregated properly. Educational expenses paid through the activity funds are not being tracked.

Recommendation of the Condition: Set up separate activity funds at the school level for student generated funds and monies generated from the staff. In addition, monies spent for educational supplies should be ran through the central office to ensure that they get properly tracked.

Management Response: Applicable school bookkeepers and principals have been made aware of the condition. Garrison Elementary and Lewis County Middle School will be asked to better segregate student and staff funds. The district feels that setting up district activity funds is a recommendation of the Department of Education and not a requirement.

2015-7 Donations – Lewis County High School

Statement of Condition: We noted that the donations received at the Lewis County High School are not being reported to the board at year-end.

Criteria for Condition: Per the Redbook: "However, the local board may give the responsibility for the donations to the schools by establishing a policy allowing schools to maintain their own donations. If the board allows donations to be kept at the school level, the principal or bookkeeper shall produce a listing of donations for submission to the school board at year-end using the Donation Acceptance Form (F-SA-18)."

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: The board is not aware of the donations received at the school level.

Recommendation of the Condition: We recommend that all schools provide a list of donations received annually to the board in accordance with Redbook requirements.

Management Response: All schools will be reminded of the requirement to annually submit a list of donations to the school board.

2015-8 Deposits – Laurel Elementary

Statement of Condition: We noted that Laurel Elementary is not making weekly deposits of monies collected for the activity funds.

Criteria for Condition: Per the Redbook, "All monies collected shall be deposited on a daily basis except for:

a) A deposit shall be made on any day in which at least \$100 is on hand to deposit. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until the earlier of when \$100 is collected or the weekly deposit is made as required by paragraph c) of this item. If not deposited the day the money is collected, the treasurer still must write the receipt the day the money is collected.

b) Money collected after school business hours for evening events shall be placed in a night depository or night drop at a bank or in the locked school safe and processed for deposit the following business day by the school treasurer.

c) At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100.”

Cause of Condition: Location of the nearest bank.

Effect of the Condition: Non-compliance with Redbook requirements.

Recommendation of the Condition: We recommend that all schools make deposits on at least a weekly basis or as otherwise required by the Redbook.

Management Response: The bookkeeper and principal of Laurel Elementary have been reminded of the activity fund deposit requirements.

Status of Prior Year Management Points

Comments 2014-02, 2014-03, 2014-04, 2014-05, and 2014-07 were not repeated in the current year, however comments 2014-01 and 2014-06 were repeated in the current year as comments 2015-8 and 2015-2, respectively. The Superintendent is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.