

**LINCOLN COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Lincoln County Board of Education and
State Committee for School District Audits
Stanford, 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 Lincoln County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule

of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2015

As management of the Lincoln County School District (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 June 30, 2015 cash balance for the District was \$7,311,545 million, as compared with the beginning cash balance of \$8,521,795. The ending cash balance consists of General Fund of \$5,913,481, Special Revenue of (\$270,685), Capital Outlay of \$824,587, Building (FSPK) Fund of \$402,185, Construction Fund of \$0, Food Service of \$441,957 and Community Education of \$20.
- Government-wide net position decreased \$1,030,161 during the 2015 fiscal year. The decrease is primarily due to a fire at Central Office on August 6, 2014 which destroyed almost 30,000 square feet of the building. Insurance proceeds will pay for reconstruction which is scheduled to be completed by March, 2017. Total long-term obligations decreased \$1,676,662.
- The General Fund had \$30.1 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$31.5 million in General Fund expenditures.
- General Fund revenue increased \$881,536 from last fiscal year due to an increase in SEEK funding to support an increase in teacher's salaries. General Fund expenses increased \$2,562,001 largely due to the salary increase and costs related to recovery from a fire at Central Office on August 6, 2014.
- The financial statements reflect revenues of \$7,138,373 from state on-behalf payments of District employees retirement contributions, health insurance, administration fees and technology with a like amount of expenses recorded.

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.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2015

Government-wide financial statements

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

Fund financial statements

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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 and deferred outflows exceeded liabilities and deferred inflows by \$10.4 million as of June 30, 2015.

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended 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) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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 period ending June 30, 2014 and June 30, 2015

A comparison of June 30, 2014 and June 30, 2015 government wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Current and Other Assets	\$ 8,902,159	\$ 7,832,510	\$ 842,768	\$ 468,416	\$ 9,744,927	\$ 8,300,926
Capital Assets	40,808,267	39,817,933	200,402	483,736	41,008,669	40,301,669
Total Assets	49,710,426	47,650,443	1,043,170	952,152	50,753,596	48,602,595
Deferred Outflows	642,487	1,546,310	-	30,096	642,487	1,576,406
TOTAL ASSETS AND DEFERRED OUTFLOWS	50,352,913	49,196,753	1,043,170	982,248	51,396,083	50,179,001
Current Liabilities	2,855,824	2,731,378	6,723	3,432	2,862,547	2,734,810
Non-Current Liabilities	30,084,281	35,990,245	-	261,414	30,084,281	36,251,659
Total Liabilities	32,940,105	38,721,624	6,723	264,846	32,946,828	38,986,470
Deferred Inflows	-	794,804	-	29,196	-	824,000
Net Position						
Investment in capital assets (net of related debt)	10,695,410	12,172,933	200,402	483,736	10,895,812	12,656,669
Restricted	1,802,523	2,810,262	836,045	204,470	2,638,568	3,014,732
Unrestricted	4,914,875	(5,302,871)	-	-	4,914,875	(5,302,871)
Total Net Position	\$ 17,412,808	\$ 9,680,324	\$1,036,447	\$ 688,206	\$ 18,449,255	\$ 10,368,530

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**
For the year ended June 30, 2015

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
REVENUES						
Program revenues						
Charges for services		\$ 85,504	\$ 230,779	\$ 147,101	\$ 230,779	\$ 232,605
Operating grants and contributions	6,138,651		2,536,105	2,628,107	8,674,756	2,628,107
Capital grants	717,400				717,400	0
General revenues						
Property taxes	4,086,342	4,253,286			4,086,342	4,253,286
Motor vehicle taxes	732,646	690,731			732,646	690,731
Utility Taxes	1,182,256	1,144,647			1,182,256	1,144,647
Other taxes					0	0
Investment earnings	52,424	32,474	2,875	2,151	55,299	34,625
State and formula grants	24,555,404	35,450,062			24,555,404	35,450,062
Transfers		114,666			0	114,666
Miscellaneous	434,156	572,565			434,156	572,565
Total revenues	37,899,279	42,343,935	2,769,759	2,777,359	40,669,038	45,121,294
EXPENSES						
Program Activities						
Instructional	23,584,896	25,535,518			23,584,896	25,535,518
Student support	1,620,774	1,686,540			1,620,774	1,686,540
Instructional staff Support	1,540,055	2,246,907			1,540,055	2,246,907
District administrative support	511,971	1,182,476			511,971	1,182,476
School administrative support	2,175,906	2,105,728			2,175,906	2,105,728
Business support	739,325	803,481			739,325	803,481
Plant operations and maintenance	3,821,666	3,835,465			3,821,666	3,835,465
Student transportation	2,492,580	2,566,732			2,492,580	2,566,732
Community service activities	422,308	437,711			422,308	437,711
Facilities Acquisition & Construction	16,525				16,525	0
Interest costs	1,107,878	849,673			1,107,878	849,673
Other	11,181	2,036,490			11,181	2,036,490
Business-type Activities						
Food service			2,414,871	2,864,736	2,414,871	2,864,736
Community education					0	0
Total expenses	38,045,065	43,286,719	2,414,871	2,864,736	40,459,936	46,151,457
Increase (decrease) in net position	\$(145,786)	\$ (942,784)	\$ 354,888	\$ (87,377)	\$ 209,102	\$(1,030,163)

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2015 and 2014 were \$7,138,373 and \$6,407,152 respectively.

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2015

Governmental Activities

For the governmental program, instructional expense comprises 57% of total expense and includes the Schools' expenditures for staff and supplies. Support services equate to 36% of total expense and are comprised of spending for student support, staff support, district administrative support, business support and plant operation and maintenance. Interest and other expenses make up the remaining 7% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Instructional	\$ 23,584,896	\$ 23,638,747	\$ 18,716,241	\$ 18,458,855
Support Services	12,918,802	15,097,121	11,665,603	13,821,868
Other	422,308	436,889	16,647	34,080
Interest Costs	1,107,878	2,534,271	779,342	1,722,836
Total Expenses	<u>\$ 38,033,884</u>	<u>\$ 41,707,028</u>	<u>\$ 31,177,833</u>	<u>\$ 34,037,639</u>

Business-Type Activities

The business type activities at the District are Food Service and Community Education. These programs had total revenues of \$2,777,359 and expenses of \$2,864,736 for fiscal year 2015. These revenues were made up of \$147,101 charges for services, \$2,628,107 federal and state operating grants and \$2,151 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

FSPK and Construction Funds Revenue/Expenditures

Fund 310 is the capital outlay fund and Fund 320 is the building fund (FSPK). State funding makes up the Capital Outlay fund and building fund is made up of state and local revenue. Fund 400 is the debt service fund and is used to make debt payments. There, the funds 310 and 320 were used to collect the state and local revenues, and transfers were then made to Fund 400 as debt service payments came due.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law.

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2015

The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$28,731,016 with actual results being \$30,079,303. Budgeted expenditures were \$33,098,056 compared to actual expenditures of \$31,454,869.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the District had invested \$40,301,669 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$707,000. Depreciation expense for the year was \$2,045,758 and capital additions were \$2,233,163.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Land	\$ 409,580	\$ 409,580	\$ -	\$ -	\$ 409,580	\$ 409,580
Construction in Progress	46,355	1,030,891			46,355	1,030,891
Buildings and Improvements	38,144,758	35,938,724	-	-	38,144,758	35,938,724
Technology	500,655	976,846	-	-	500,655	976,846
Vehicles	1,120,195	914,487	-	-	1,120,195	914,487
General Equipment	<u>586,724</u>	<u>547,405</u>	<u>200,402</u>	<u>483,736</u>	<u>787,126</u>	<u>1,031,141</u>
Total	<u>\$40,808,267</u>	<u>\$39,817,933</u>	<u>\$ 200,402</u>	<u>\$ 483,736</u>	<u>\$ 41,008,669</u>	<u>\$ 40,301,669</u>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Beginning Balance	\$ 42,060,578	\$ 40,808,267	\$ 252,997	\$ 200,402	\$ 42,313,575	\$ 41,008,669
Additions	661,874	1,896,852	-	336,311	661,874	2,233,163
Retirements	(11,181)	(893,531)		(1,215)	(11,181)	(894,746)
Depreciation	<u>(1,903,004)</u>	<u>(1,993,655)</u>	<u>(52,595)</u>	<u>(51,763)</u>	<u>(1,955,599)</u>	<u>(2,045,418)</u>
Ending Balance	<u>\$ 40,808,267</u>	<u>\$ 39,817,933</u>	<u>\$ 200,402</u>	<u>\$ 483,735</u>	<u>\$ 41,008,669</u>	<u>\$ 40,301,668</u>

**LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2015

Long-Term Debt

No new bonds were issued in FY 2015. The District made scheduled bond principal payments in the amount of \$1,475,000 and financed three additional buses through KISTA which added \$328,240 to capital lease payments. In addition to the KISTA lease, the District was assessed \$355,503 by Kentucky School Boards Insurance Trust (KSBIT) as of June 30, 2013. The balance on this assessment is \$263,995.

Outstanding Debt at Year-End

		Government Activities		
		2014	2015	
		<u>2014</u>	<u>2015</u>	
Capital Lease Obligations	\$	0.99	\$	1.19
General Obligation Bonds		<u>29.12</u>		<u>27.64</u>
Total Obligations	\$	<u><u>30.11</u></u>	\$	<u><u>28.83</u></u>

Future Budgetary Implications

In Kentucky, the public school's fiscal year is July 1 – June 30; other programs, i.e. some Federal programs 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 District adopted a budget for fiscal year 2015-2016 with an approximate 4.3% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which provided a 2% raise for all employees for the 2015-2016 school year. The State mandated this raise for certified and classified employees for the FY 2016. The State increased the SEEK base from \$3,911 to \$3,981 to help fund this increase. The increase in SEEK base and a decrease in pupil count results in a \$80,884 increase in SEEK funding for FY 2016. However, state funding is not keeping pace with mandated state requirements and will continue to be an issue. Increasing retirement costs to be borne by the District is one of the significant issues that will impact future budgets.

The District has not experienced any real growth in student population for several years, although costs of providing services continue to increase. Thus, management will continue to be challenged with balancing our staffing needs with declining enrollment and providing the resources to meet the students' needs.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2015

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (606) 365-2124 or by mail at Lincoln County Board of Education, 305 Danville Avenue, P.O. Box 265, Stanford, KY 40484.

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 6,869,569	\$ 441,977	\$ 7,311,545
Receivables (net)	962,941	56	962,997
Inventories		26,383	26,383
Capital assets:			
Land, improvements, and construction in progress	1,440,471		1,440,471
Other capital assets, net of depreciation	38,377,462	483,736	38,861,197
Total capital assets	39,817,933	483,736	40,301,669
Total assets	47,650,443	952,152	48,602,594
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	946,655	30,096	976,751
Deferred savings from refunding bonds	599,655		599,655
Total deferred outflows of resources	1,546,310	30,096	1,576,406
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	49,196,752	982,248	50,179,000
LIABILITIES			
Accounts payable and accrued expenses	265,285	3,432	268,717
Accrued interest payable	200,768		200,768
Accrued salaries and benefits payable	17,761		17,761
Unearned revenue	460,498		460,498
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,555,000		1,555,000
Capital lease obligations	165,023		165,023
KSBIT payable	47,509		47,509
Sick leave payable	3,950		3,950
Note payable	15,585		15,585
Total due within 1 year	1,787,066	-	1,787,066
Due in more than 1 year:			
Bond obligations	26,090,000		26,090,000
Capital lease obligations	1,022,141		1,022,141
KSBIT payable	216,486		216,486
Sick leave	1,476,168		1,476,168
Note payable	68,865		68,865
Net pension liability	7,116,585	261,414	7,377,999
Total due in more than 1 year	35,990,245	261,414	36,251,659
Total liabilities	38,721,624	264,846	38,986,470
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	794,804	29,196	824,000
NET POSITION			
Net Investment in capital assets	12,172,933	483,736	12,656,669
Restricted for:			
Capital projects	1,226,772		1,226,772
Other purposes	1,583,490		1,583,490
Community services		20	20
Food services		204,450	204,450
Deficit	(5,302,871)		(5,302,871)
Total net position	9,680,324	688,206	10,368,530
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 49,196,752	\$ 982,248	\$ 50,179,000

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 25,535,518	\$ -	\$ 10,418,694	\$ -	\$ (15,116,825)		\$ (15,116,825)
Support Services							
Student	1,686,540	85,504	618,244		(982,792)		(982,792)
Instructional Staff	2,246,907		823,661		(1,423,246)		(1,423,246)
District Administration	1,182,476		433,467		(749,009)		(749,009)
School Administration	2,105,728		771,908		(1,333,819)		(1,333,819)
Business	803,481		294,536		(508,944)		(508,944)
Plant Operation & Maintenance	3,835,465		1,405,988	1,160,211	(1,269,266)		(1,269,266)
Student Transportation	2,566,732		940,901		(1,625,830)		(1,625,830)
Community Services Operations	437,711		160,454		(277,257)		(277,257)
Building Acquisitions & Construction					-		-
Amortization	42,832				(42,832)		(42,832)
Depreciation	1,993,658				(1,993,658)		(1,993,658)
Interest on long term debt	849,673			642,600	(207,073)		(207,073)
Total governmental activities	<u>43,286,719</u>	<u>85,504</u>	<u>15,867,854</u>	<u>1,802,811</u>	<u>(25,530,551)</u>		<u>(25,530,551)</u>
Business-type activities:							
Food service operations	2,697,092	147,101	2,628,107			\$ 78,116	78,116
Community Services						-	-
Depreciation	52,100					(52,100)	(52,100)
Total business-type activities	<u>2,749,192</u>	<u>147,101</u>	<u>2,628,107</u>	<u>-</u>	<u>-</u>	<u>26,016</u>	<u>26,016</u>
Total primary government	\$ <u>46,035,912</u>	\$ <u>232,605</u>	\$ <u>18,495,961</u>	\$ <u>1,802,811</u>	<u>(25,530,551)</u>	<u>26,016</u>	<u>(25,504,535)</u>
General revenues:							
Taxes:							
Property taxes					4,253,286		4,253,286
Motor vehicle taxes					690,731		690,731
Utilities					1,144,647		1,144,647
State and formula grants					17,779,397		17,779,397
Other local revenue					322,252		322,252
Loss on sale of equipment						(878)	(878)
Insurance recoveries					250,313		250,313
Unrestricted investment earnings					32,474	2,151	34,625
Transfers					114,666	(114,666)	-
Total general revenues and transfers					<u>24,587,767</u>	<u>(113,393)</u>	<u>24,474,374</u>
Change in net position					(942,784)	(87,377)	(1,030,161)
Net Position - beginning					17,412,808	1,036,449	18,449,257
Change in accounting principle - Prior period adjustment-1					(7,101,684)	(260,867)	(7,362,551)
Prior period adjustment-2						1	1
Prior period adjustment-3					311,984		311,984
Restated net position - beginning					<u>10,623,108</u>	<u>775,583</u>	<u>11,398,691</u>
Net Position - ending					\$ <u>9,680,324</u>	\$ <u>688,206</u>	\$ <u>10,368,530</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds					
	General	Special Revenue	Debt Service	Capital Outlay	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 5,913,481	\$ -	\$ -	\$ 824,587	\$ 402,185	\$ 7,140,253
Receivables, net						
Taxes-current	128,629					128,629
Taxes-delinquent	9,035					9,035
Accounts	6,327					6,327
Intergovernmental-federal		818,950				818,950
Total assets	6,057,472	818,950	-	824,587	402,185	8,103,194
LIABILITIES						
Accounts payable	177,518	87,767				265,285
Accrued salaries and benefits payable	17,761					17,761
Sick leave payable	3,950					3,950
Cash shortage		270,685				270,685
Unearned revenue		460,498				460,498
Total liabilities	199,229	818,950	-	-	-	1,018,179
FUND BALANCE						
Restricted				824,587	402,185	1,226,772
Committed	862,033					862,033
Assigned	721,458					721,458
Unassigned	4,274,753					4,274,753
Total fund balance	5,858,244	-	-	824,587	402,185	7,085,016
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,057,472	\$ 818,950	\$ -	\$ 824,587	\$ 402,185	\$ 8,103,194

See the accompanying notes to the financial statements.

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

Fund balances-total governmental funds	\$	7,085,016
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		39,817,933
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		599,655
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(200,768)
Bonds and notes payable		(28,916,614)
KSBIT payable		(263,995)
Sick leave liability		(1,476,168)
Net pension liability		(7,116,585)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to employer 2015 contributions to pensions		946,655
Deferred inflows of resources related to pensions		(794,804)
		(794,804)
Net position of governmental activities	\$	9,680,324
		9,680,324

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 3,754,295	\$ -	\$ -	\$ -	\$ 498,991	\$ 4,253,286
Motor vehicle	690,731					690,731
Utility tax	1,144,647					1,144,647
Student activities	85,504					85,504
Earnings on investments	30,458	898			1,118	32,474
Other local revenue	21,668	300,584				322,252
Intergovernmental - state	24,258,971	954,922	544,925	349,674	810,537	26,919,029
Intergovernmental - federal	93,029	5,603,346	97,675			5,794,050
Total revenues	<u>30,079,303</u>	<u>6,859,750</u>	<u>642,600</u>	<u>349,674</u>	<u>1,310,646</u>	<u>39,241,973</u>
EXPENDITURES						
Instruction	18,458,855	5,179,892				23,638,747
Support Services						
Student	1,397,889	297,634				1,695,523
Instructional Staff	1,506,517	773,687				2,280,204
District Administration	1,209,528					1,209,528
School Administration	2,113,117					2,113,117
Business	800,273					800,273
Plant Operation & Maintenance	3,773,858	5,500				3,779,357
Student Transportation	2,194,833	33,831				2,228,665
Community Services Operations		436,889				436,889
Site Improvement					475,274	475,274
Building Improvements					515,182	515,182
Debt Service			2,534,271			2,534,271
Total expenditures	<u>31,454,869</u>	<u>6,727,433</u>	<u>2,534,271</u>	<u>-</u>	<u>990,455</u>	<u>41,707,028</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,375,566)	132,317	(1,891,671)	349,674	320,191	(2,465,055)
OTHER FINANCING SOURCES (USES)						
Loss compensation	926,487				223,273	1,149,761
Operating transfers in	264,713	17,730	1,891,671		76,467	2,250,582
Operating transfers (out)	(440,512)	(150,047)		(349,674)	(1,195,683)	(2,135,916)
Total other financing sources and (uses)	<u>750,689</u>	<u>(132,317)</u>	<u>1,891,671</u>	<u>(349,674)</u>	<u>(895,942)</u>	<u>1,264,427</u>
NET CHANGE IN FUND BALANCE	(624,877)	-	-	-	(575,751)	(1,200,628)
FUND BALANCE-BEGINNING	6,171,136	-	-	824,587	977,936	7,973,659
PRIOR PERIOD ADJUSTMENT	311,984					311,984
RESTATED FUND BALANCE-BEGINNING	<u>6,483,120</u>	<u>-</u>	<u>-</u>	<u>824,587</u>	<u>977,936</u>	<u>8,285,644</u>
FUND BALANCE-ENDING	<u>\$ 5,858,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 824,587</u>	<u>\$ 402,185</u>	<u>\$ 7,085,016</u>

See the accompanying notes to the financial statements.

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

Net change in fund balances-total governmental funds	\$	(1,200,628)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		136,950
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(990,334)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(42,832)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		1,196,243
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		26,115
KSBIT payable		91,508
Other		0
Noncurrent sick leave payable		(159,806)
		(159,806)
Change in net position of governmental activities	\$	<u><u>(942,784)</u></u>

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 3,367,100	\$ 3,369,525	\$ 3,754,295	\$ 384,770
Motor vehicle	580,000	580,000	690,731	110,731
Utility tax	1,000,000	1,000,000	1,144,647	144,647
Student activities			85,504	85,504
Earnings on investments	30,000	30,000	30,458	458
Other local revenue	1,500	3,026	21,668	18,642
Intergovernmental - state	23,704,931	23,704,931	24,258,971	554,040
Intergovernmental - federal	43,534	43,534	93,029	49,495
Total revenues	<u>28,727,065</u>	<u>28,731,016</u>	<u>30,079,303</u>	<u>1,348,287</u>
EXPENDITURES				
Instruction	19,644,055	20,007,612	18,458,855	1,548,757
Support Services				
Student	1,410,660	1,410,660	1,397,889	12,771
Instructional Staff	1,026,087	1,026,087	1,506,517	(480,430)
District Administration	863,486	866,986	1,209,528	(342,542)
School Administration	2,026,615	2,026,615	2,113,117	(86,502)
Business	702,928	702,928	800,273	(97,345)
Plant Operation & Maintenance	3,725,298	3,685,248	3,773,858	(88,610)
Student Transportation	2,919,813	2,981,091	2,194,833	786,258
Debt Service	340,282	390,829	-	390,829
Total expenditures	<u>32,659,224</u>	<u>33,098,056</u>	<u>31,454,869</u>	<u>1,643,187</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,932,159)	(4,367,040)	(1,375,566)	2,991,474
OTHER FINANCING SOURCES (USES)				
Loss compensation			926,487	926,487
Operating transfers in		147,097	264,713	117,616
Operating transfers (out)	(87,563)	(155,343)	(440,512)	(285,169)
Total other financing sources and (uses)	<u>(87,563)</u>	<u>(8,246)</u>	<u>750,689</u>	<u>758,935</u>
NET CHANGE IN FUND BALANCE	(4,019,722)	(4,375,286)	(624,877)	3,750,409
FUND BALANCE-BEGINNING	5,815,572	6,171,136	6,171,136	-
PRIOR PERIOD ADJUSTMENT			311,984	311,984
RESTATED FUND BALANCE-BEGINNING	<u>5,815,572</u>	<u>6,171,136</u>	<u>6,483,120</u>	<u>311,984</u>
FUND BALANCE-ENDING	<u>\$ 1,795,850</u>	<u>\$ 1,795,850</u>	<u>\$ 5,858,244</u>	<u>\$ 4,062,394</u>

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$ -	\$ 1,500	\$ 898	\$ (602)
Other local revenue	289,408	296,858	300,584	3,726
Intergovernmental - state	508,425	1,229,385	954,922	(274,463)
Intergovernmental - federal	3,180,971	5,985,065	5,603,346	(381,719)
Total revenues	<u>3,978,804</u>	<u>7,512,808</u>	<u>6,859,750</u>	<u>(653,058)</u>
EXPENDITURES				
Instruction	3,117,918	5,408,909	5,179,892	229,017
Support Services				
Student	297,648	299,152	297,634	1,518
Instructional Staff	496,866	1,215,049	773,687	441,362
Plant Operation & Maintenance	63,112	12,565	5,500	7,065
Student Transportation	3,260	17,860	33,831	(15,971)
Community Services Operations		426,956	436,889	(9,933)
Total expenditures	<u>3,978,804</u>	<u>7,380,491</u>	<u>6,727,433</u>	<u>653,058</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	132,317	132,317	-
OTHER FINANCING SOURCES (USES)				
Operating transfers in		32,365	17,730	(14,635)
Operating transfers out		(164,682)	(150,047)	14,635
Total other financing sources and (uses)	<u>-</u>	<u>(132,317)</u>	<u>(132,317)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

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

	School Food Services	Other Proprietary Fund	Total Proprietary Funds
ASSETS			
Cash and cash equivalents	\$ 441,957	\$ 20	\$ 441,977
Receivables, net	56		56
Inventories	26,383		26,383
Capital assets:			
Other capital assets, net of depreciation	483,736		483,736
Total assets	952,132	20	952,152
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	30,096		30,096
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	982,228	20	982,248
LIABILITIES			
Accounts payable	3,432		3,432
Net pension liability	261,414		261,414
Total liabilities	264,846	-	264,846
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	29,196		29,196
NET POSITION			
Net Investment in capital assets	483,736	-	483,736
Restricted for:			
Expendable Restricted for Community Education		20	20
Expendable Restricted for Food Service	204,450		204,450
Total net position	688,186	20	688,206
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 982,228	\$ 20	\$ 982,248

See the accompanying notes to the financial statements.

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

	School Food Services	Other Proprietary Fund	Total Proprietary Fund
OPERATING REVENUES			
Lunchroom sales	\$ 147,101	\$	\$ 147,101
Total operating revenues	<u>147,101</u>	<u>-</u>	<u>147,101</u>
OPERATING EXPENSES			
Depreciation	52,100		52,100
Food service operations			-
Salaries and benefits	972,554		972,554
Operational	1,724,538		1,724,538
Total operating expenses	<u>2,749,192</u>	<u>-</u>	<u>2,749,192</u>
Operating income (loss)	(2,602,091)	-	(2,602,091)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	2,439,328		2,439,328
State grants	188,779		188,779
Transfers	(114,666)		(114,666)
Loss on retirement of capital assets	(878)		(878)
Earnings from investments	2,151	0	2,151
Total nonoperating revenues (expenses)	<u>2,514,714</u>	<u>0</u>	<u>2,514,714</u>
CHANGE IN NET POSITION	(87,377)	0	(87,377)
NET POSITION-BEGINNING	1,036,429	20	1,036,449
PRIOR PERIOD ADJUSTMENT-1	(260,867)		(260,867)
PRIOR PERIOD ADJUSTMENT-2	1		1
RESTATED NET POSITION-BEGINNING	<u>775,563</u>	<u>20</u>	<u>775,583</u>
NET POSITION-ENDING	<u>\$ 688,186</u>	<u>\$ 20</u>	<u>\$ 688,206</u>

See the accompanying notes to the financial statements.

Lincoln County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	School Food Services	Other Proprietary Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 147,101	\$ -	\$ 147,101
Payments to suppliers	(1,664,319)	-	(1,664,319)
Payments to employees	(972,554)	-	(972,554)
Net cash provided (used) by operating activities	(2,489,772)	-	(2,489,772)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants and contributions	2,628,107	-	2,628,107
Pensions	(353)	-	-
Operating transfers	(114,666)	-	(114,666)
Net cash provided (used) by noncapital financing activities	2,513,088	-	2,513,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(336,310)	-	(336,310)
Retirement of capital assets	(878)	-	(878)
Net cash provided (used) by capital and related financing activities	(336,310)	-	(336,310)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	2,151	0	2,151
Net cash provided (used) by investing activities	2,151	0	2,151
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(310,844)	0	(310,843)
CASH AND CASH EQUIVALENTS-BEGINNING	752,800	20	752,820
CASH AND CASH EQUIVALENTS-ENDING	\$ 441,957	\$ 20	\$ 441,977
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,602,091)	\$ -	\$ (2,602,091)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	52,100	-	52,100
Changes in assets and liabilities:			
Receivables	67,043	-	67,043
Inventory	(3,533)	-	(3,533)
Accrued liabilities	(3,291)	-	(3,291)
Net cash provided (used) by operating activities	\$ (2,489,772)	\$ -	\$ (2,489,772)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$131,322 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$164,577 provided by state government.

See the accompanying notes to the financial statements.

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

		<u>School Activity Funds</u>
ASSETS		
Cash and cash equivalents	\$	394,508
Accounts receivable		3,188
		<u>397,696</u>
Total Assets		<u><u>397,696</u></u>
 LIABILITIES		
Accounts payable		5,581
Due to student groups		392,114
		<u>397,696</u>
Total Liabilities		<u>397,696</u>
 NET POSITION HELD IN TRUST		
		<u>-</u>
 TOTAL LIABILITIES AND NET POSITION HELD IN TRUST		
	\$	<u><u>397,696</u></u>

See the accompanying notes to the financial statements.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lincoln County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Lincoln County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Lincoln County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Blended Component Unit:

Lincoln County Board Of Education Finance Corporation

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

Basis of Presentation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

Community Education Fund

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.478 per \$100 valuation of real property, \$.478 per \$100 valuation for business personal property and \$.542 per \$100 valuation for motor vehicles.

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Estimates

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

New Accounting Pronouncements

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

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited a local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value.

	Bank
	<u>Balance</u>
FDIC	\$ 250,000
Securities pledged to district	<u>8,937,037</u>
Bank balance	<u><u>\$ 9,187,037</u></u>

	Book
	<u>Balance</u>
	<u>Cash and cash</u>
	<u>equivalents</u>
Governmental Activities	\$ 6,869,569
Business-type Activities	441,977
Fiduciary Fund	
School Activity	<u>394,508</u>
Total carrying amount	<u><u>\$ 7,706,054</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE C – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 409,580	\$ -	\$ -	\$ 409,580
Land improvements	2,143,917	-	-	2,143,917
Buildings	55,237,886	5,919	2,249,393	52,994,412
Technology equipment	3,515,365	838,155	398,793	3,954,727
Vehicles	5,721,718	4,999	-	5,726,717
General equipment	1,297,919	69,162	22,061	1,345,021
Construction in progress	46,355	990,455	5,919	1,030,891
Total at historical cost	\$ <u>68,372,741</u>	\$ <u>1,908,690</u>	\$ <u>2,676,166</u>	\$ <u>67,605,265</u>
Less: Accumulated depreciation				
Land improvements	1,927,006	35,209	-	1,962,215
Buildings	17,310,041	1,354,199	1,426,851	17,237,390
Technology equipment	3,014,709	289,430	326,259	2,977,881
Vehicles	4,601,524	210,706	-	4,812,230
General equipment	711,196	104,110	17,690	797,616
Total accumulated depreciation	\$ <u>27,564,477</u>	\$ <u>1,993,655</u>	\$ <u>1,770,800</u>	\$ <u>27,787,332</u>
Governmental Activities				
Capital Assets-net	\$ <u>40,808,264</u>	\$ <u>(84,965)</u>	\$ <u>905,367</u>	\$ <u>39,817,933</u>
<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Technology equipment	\$ 65,921	\$ -	\$ -	\$ 65,921
General equipment	1,044,618	336,310	27,879	1,353,049
Total at historical cost	\$ <u>1,110,539</u>	\$ <u>336,310</u>	\$ <u>27,879</u>	\$ <u>1,418,970</u>
Less: Accumulated depreciation				
Technology equipment	\$ 66,141	\$ 118	\$ 337	\$ 65,921
General equipment	843,995	51,983	26,664	869,313
Total accumulated depreciation	\$ <u>910,135</u>	\$ <u>52,100</u>	\$ <u>27,001</u>	\$ <u>935,234</u>
Business-Type Activities				
Capital Assets-net	\$ <u>200,403</u>	\$ <u>284,210</u>	\$ <u>878</u>	\$ <u>483,736</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Lincoln County School District Finance Corporation aggregating \$27,645,000 and \$1,555,000 is the portion due within one year.

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

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2014R	\$ 5,385,000	6/1/2030	3.635 - 4.8%	\$ 5,300,000	\$ -	55,000.00	\$ 5,245,000
2012R	6,820,000	8/1/2025	1.0 - 2.375%	6,730,000		70,000.00	6,660,000
2012	2,145,000	5/1/2032	1.15 - 3.2%	2,095,000		25,000.00	2,070,000
2010BAB	7,415,000	9/1/2030	0.7 - 4.9%	6,970,000		150,000.00	6,820,000
2010R	4,215,000	12/1/2021	2.0 - 3.3%	3,955,000		85,000.00	3,870,000
2009ECB	725,000	12/1/2016	1.25 - 2.75%	360,000		120,000.00	240,000
2009R	3,130,000	12/1/2020	2.0 - 3.0%	2,065,000		250,000	1,815,000
2005	470,000	8/1/2016	3.7 - 4.0%	385,000		95,000.00	290,000
2004	\$ 3,650,000	12/1/2015	3.635 - 4.8%	1,260,000		625,000.00	635,000
Totals				\$ 29,120,000	\$ -	\$ 1,475,000	\$ 27,645,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended	Principal		Interest		Federal	Total	
	Local	SFCC	Local	SFCC		Principal	Interest
	30-Jun						
2016	\$ 1,152,400	\$ 402,600	\$ 664,976	\$ 140,554	\$ 104,850	\$ 1,555,000	\$ 910,380
2017	1,195,235	394,765	611,810	127,745	103,800	1,590,000	843,355
2018	1,173,923	406,077	559,973	113,694	102,444	1,580,000	776,112
2019	1,197,557	417,443	530,597	102,328	100,884	1,615,000	733,810
2020	1,232,658	372,342	499,560	91,118	99,134	1,605,000	689,812
2021-2025	6,813,191	1,216,809	2,001,799	337,051	463,107	8,030,000	2,801,957
2026-2030	7,827,653	922,347	1,117,154	138,286	336,838	8,750,000	1,592,277
2031-2035	2,772,235	147,765	109,217	3,620	25,725	2,920,000	138,563
	<u>\$23,364,852</u>	<u>\$4,280,148</u>	<u>\$6,095,086</u>	<u>\$1,054,396</u>	<u>\$1,336,784</u>	<u>\$27,645,000</u>	<u>\$8,486,266</u>

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

KISTA Issue	Original Amount	Maturity Dates	Interest Rates	2014	Additions	Retirements	2015
				Outstanding Balance			Outstanding Balance
2009	\$ 435,231	3/1/2019	2.0 - 3.9%	\$ 216,026	\$ -	\$ 43,716	\$ 172,310
2013	408,644	3/1/2023	2.0%	363,851		45,518	318,333
2014	412,980	3/1/2024	2.0 - 3.0%	412,980		44,699	368,281
2015	\$ 328,240	3/1/2025	1.0 - 2.625%		328,240		328,240
Totals				<u>\$ 992,857</u>	<u>\$ 328,240</u>	<u>\$ 133,933</u>	<u>\$ 1,187,164</u>

The minimum payments are as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
30-Jun			
2016	\$ 165,023	\$ 26,790	\$ 191,813
2017	160,838	23,448	184,286
2018	151,230	19,892	171,122
2019	154,935	16,348	171,283
2020	116,026	12,467	128,493
2021-2025	<u>439,112</u>	<u>21,460</u>	<u>460,572</u>
	<u>\$ 1,187,164</u>	<u>\$ 120,404</u>	<u>\$ 1,307,568</u>

NOTE E – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	2014 <u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	2015 <u>Outstanding Balance</u>
Sick Leave	\$ 1,628,347	\$ -	\$ 152,179	\$ 1,476,168
Totals	<u>\$ 1,628,347</u>	<u>\$ -</u>	<u>\$ 152,179</u>	<u>\$ 1,476,168</u>

The District elected to take advantage of the 0% interest option repayment plan for the worker’s compensation and property and liability insurance deficit with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker’s compensation deficit during fiscal year 2015 with the remaining balance to be repaid over the next six years, and to pay 40% of the property and liability deficit during fiscal year 2015 with the remaining balance to be repaid over the next two years. The activity during fiscal year 2015 for the worker’s compensation and property and liability deficit are as follows:

<u>Insurance Fund</u>	2014 <u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	2015 <u>Outstanding Balance</u>
Worker's Compensation	\$ 337,954		\$ 84,489	\$ 253,465
Property and Liability	17,549		7,019	10,530
Totals	<u>\$ 355,503</u>	<u>\$ -</u>	<u>\$ 91,508</u>	<u>\$ 263,995</u>

The minimum payments are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year	
Ended June 30,	
	<u>Payment</u>
2016	\$ 47,509
2017	47,509
2018	42,244
2019	42,244
2020	42,244
2021	<u>42,244</u>
Total	<u><u>\$ 263,995</u></u>

The District entered into an agreement with MUSCO to finance lighting for the athletic fields. The activity on the agreement for FY 2015 is as follows:

2014			2015	
Outstanding			Outstanding	
<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
\$ -	\$ 134,000	\$ 49,550	\$ 84,450	

The minimum payments are as follows:

Fiscal Year			
Ended June 30,			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 15,585	3,396.83	\$ 18,982
2017	16,212	2,770	18,982
2018	16,864	2,118	18,982
2019	17,542	1,440	18,982
2020	<u>18,248</u>	<u>734</u>	<u>18,982</u>
Total	<u><u>\$ 84,450</u></u>	<u><u>\$ 10,458</u></u>	<u><u>\$ 94,908</u></u>

NOTE F – RETIREMENT PLANS

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

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

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

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

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

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

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

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.) Complete 27 years of Kentucky service.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

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

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

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

District's proportionate share of CERS net pension liability	\$ 7,377,999
Commonwealth's proportionate share of the KTRS net pension liability associated with the district	<u>107,599,741</u>
	<u>\$ 114,977,741</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District’s proportion was .227394% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$839,449 related to CERS and \$9,330,431 related to KTRS. The District also recognized revenue of \$9,330,431 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	824,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>976,751</u>	<u>-</u>
	\$ <u><u>976,751</u></u>	\$ <u><u>824,000</u></u>

\$976,751 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Year Ended June 30,</u>	
2016	\$	195,350
2017		195,350
2018		195,350
2019		195,350
2020		<u>195,350</u>
	\$	<u><u>976,751</u></u>

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

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

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	8,329,446	7,377,999	6,425,573
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

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

NOTE G – COMMITMENTS

The District has commitments of \$160,725 as of June 30, 2015 for future construction projects.

The Lincoln County School District has committed the fund balance in General Fund as follows:

<u>Purpose</u>	<u>Amount</u>
Site Base Carryforward	\$ 123,949
Sick Leave	\$ 738,084

NOTE H - CONTINGENCIES

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

NOTE I- LITIGATION

The District is currently involved in pending litigation for which the expected award to the claimant if any is expected to be covered by the District’s insurance carrier.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

The District received insurance recoveries of \$1,149,761 as of June 30, 2015 for fire and storm damage and damage to a bus. The net associated insurance recovery was reported in the government-wide financial statements in the amount of \$250,313. Subsequent to the fiscal year end, the District received an additional \$5,052,874 of insurance recoveries for fire damage.

NOTE K – RISK MANAGEMENT

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

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

NOTE L – DEFICIT FUND AND OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (942,784)
Business Type Activities	(87,377)
General	(624,877)
Construction	(689,596)
Food Service	(87,377)

NOTE M - COBRA

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Special Revenue Fund	General Fund	Indirect Costs	\$ 2,950
Operating	Special Revenue Fund	General Fund	Operations	147,097
Operating	Food Service Fund	General Fund	Indirect Costs	114,666
Operating	General Fund	Special Revenue Fund	KETS	17,730
Operating	General Fund	Construction Fund	Construction	76,467
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	349,674
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	1,195,683
Debt Service	General Fund	Debt Service Fund	Debt Payments	\$ 346,314

NOTE O – ON-BEHALF PAYMENTS

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

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 2,535,623
Health Insurance	4,290,016
Life Insurance	7,812
Administrative Fee	53,590
HRA/Dental/Vision	228,288
Federal Reimbursement	(602,102)
Technology	80,222
SFCC Debt Service Payments	<u>544,925</u>
Total	\$ <u><u>7,138,373</u></u>

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

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

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$7,362,551 reduction in beginning net position on the Statement of Activities and an increase of \$985,449 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – RESTRICTED FUNDS

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 204,450	Food Service Operations
Community Education	20	Community Education Operations
Capital Outlay	824,587	SFCC Requirements
FSPK	\$ 402,185	Debt Service

NOTE R – PRIOR PERIOD ADJUSTMENT

Sick leave liability was overstated by \$311,984, GASB 68 was implemented and capital assets were understated by \$1. Their effects on beginning net position are as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Net Position July 1, 2014	\$ 17,412,808	\$ 1,036,449	\$ 18,449,257
Prior Period Adjustment 1 (See Note P)	(7,101,684)	(260,867)	(7,362,551)
Prior Period Adjustment 2		1	1
Prior Period Adjustment 3	311,984		311,984
Restated Net Position July 1, 2014	<u>\$ 10,623,108</u>	<u>\$ 775,583</u>	<u>\$ 11,398,691</u>

The overstatement of the sick leave liability also caused beginning fund balance in the General Fund to be understated by \$311,984.

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 13, 2015, the date of the audit report.

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

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.23%
District's proportionate share of the net pension liability	\$7,377,999
State's proportionate share of the net pension liability associated with the District	-
Total	\$7,377,999
District's covered-employee payroll	\$6,088,163
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121.19%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.524%
District's proportionate share of the net pension liability	-
State's proportionate share of the net pension liability associated with the District	107,599,741
Total	\$107,599,741
District's covered-employee payroll	-
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

See the accompanying notes to the required supplementary information.

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$976,751	\$1,150,054
Contributions in relation to the contractually required contribution	\$976,751	\$1,150,054
Contribution deficiency (excess)	\$0	\$0
District's covered-employee payroll	\$5,482,170	\$6,088,163
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.82%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$0	\$0
Contributions in relation to the contractually required contribution	\$0	\$0
Contribution deficiency (excess)	\$0	\$0
District's covered-employee payroll	\$0	\$0
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

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

See the accompanying notes to the required supplementary information.

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

Changes of benefit terms – None

Changes of assumptions – None

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

	Other Governmental Funds		
	FSPK	Construction Fund	Total
Assets			
Cash and Cash Equivalents	\$ 402,185	\$ -	\$ 402,185
Total Assets	402,185	-	402,185
Fund Balances			
Restricted	402,185	-	402,185
Total Fund Balances	\$ 402,185	\$ -	\$ 402,185

See the accompanying notes to the financial statements.

Lincoln County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year ended June 30, 2015

	Other Governmental Funds		
	FSPK	Construction Fund	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ 498,991	\$ -	\$ 498,991
Earnings on investments		1,118	1,118
Intergovernmental - State	810,537		810,537
	1,309,528	1,118	1,310,646
Total Revenues			
Expenditures			
Site improvement		475,274	475,274
Building improvements		515,182	515,182
Total Expenditures	-	990,455	990,455
Excess (Deficit) of Revenues Over Expenditures	1,309,528	(989,337)	320,191
Other Financing Sources (Uses)			
Loss compensation		223,273	223,273
Operating transfers in		76,467	76,467
Operating transfers (out)	(1,195,683)		(1,195,683)
	(1,195,683)	299,741	(895,942)
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	113,845	(689,596)	(575,751)
Fund Balance Beginning	288,340	689,596	977,936
Fund Balance Ending	\$ 402,185	\$ -	\$ 402,185

See the accompanying notes to the financial statements.

Lincoln County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds
 June 30, 2015

	SCHOOL ACTIVITY FUNDS					
	LINCOLN COUNTY HIGH SCHOOL	FORT LOGAN HIGH SCHOOL	LINCOLN COUNTY MIDDLE SCHOOL	MCGUFFEY 6TH GRADE CENTER	CRAB ORCHARD ELEMENTARY	HIGHLAND ELEMENTARY
ASSETS						
Cash and cash equivalents	\$ 212,784	\$ 1,028	\$ 63,251	\$ 6,745	\$ 2,907	\$ 6,478
Accounts receivable	745		423		-	-
Total Assets	<u>213,528</u>	<u>1,028</u>	<u>63,674</u>	<u>6,745</u>	<u>2,907</u>	<u>6,478</u>
LIABILITIES						
Accounts payable	3,288		1,663	-	-	-
FUND BALANCE						
School activities	<u>210,240</u>	<u>1,028</u>	<u>62,011</u>	<u>6,745</u>	<u>2,907</u>	<u>6,478</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 213,528</u>	<u>\$ 1,028</u>	<u>\$ 63,674</u>	<u>\$ 6,745</u>	<u>\$ 2,907</u>	<u>\$ 6,478</u>

See the accompanying notes to the financial statements.

Lincoln County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds
 June 30, 2015

	SCHOOL ACTIVITY FUNDS					
	HUSTONVILLE ELEMENTARY	MCKINNEY ELEMENTARY	STANFORD ELEMENTARY	STANFORD CHARITABLE GAMING	WAYNESBURG ELEMENTARY	FIDUCIARY FUNDS TOTAL
ASSETS						
Cash and cash equivalents	\$ 27,154	\$ 27,901	\$ 25,507	\$ 38	\$ 20,715	\$ 394,508
Accounts receivable	<u>2,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,188</u>
Total Assets	<u><u>29,174</u></u>	<u><u>27,901</u></u>	<u><u>25,507</u></u>	<u><u>38</u></u>	<u><u>20,715</u></u>	<u><u>397,696</u></u>
LIABILITIES						
Accounts payable	630		-	-	-	5,581
FUND BALANCE						
School activities	<u>28,544</u>	<u>27,901</u>	<u>25,507</u>	<u>38</u>	<u>20,715</u>	<u>392,114</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 29,174</u></u>	<u><u>\$ 27,901</u></u>	<u><u>\$ 25,507</u></u>	<u><u>\$ 38</u></u>	<u><u>\$ 20,715</u></u>	<u><u>\$ 397,696</u></u>

See the accompanying notes to the financial statements.

Lincoln County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
 For the year ended June 30, 2015

	SCHOOL ACTIVITY FUNDS					
	LINCOLN COUNTY HIGH SCHOOL	FORT LOGAN HIGH SCHOOL	LINCOLN COUNTY MIDDLE SCHOOL	MCGUFFEY 6TH GRADE CENTER	CRAB ORCHARD ELEMENTARY	HIGHLAND ELEMENTARY
Revenues						
Student/Trust revenues	\$ 562,756	\$ 813	\$ 220,114	\$ 35,689	\$ 25,742	\$ 39,267
Expenses						
Student/Trust activities	486,579	2,515	231,502	36,600	29,985	40,251
Excess (Deficit) of Revenues Over Expenses	76,177	(1,702)	(11,389)	(912)	(4,243)	(984)
Fund Balance-Beginning	134,063	2,730	73,400	7,656	7,150	7,462
Prior Period Adjustment						
Restated Fund Balance-Beginning	134,063	2,730	73,400	7,656	7,150	7,462
Fund Balance-Ending	\$ 210,240	\$ 1,028	\$ 62,011	\$ 6,745	\$ 2,907	\$ 6,478

See the accompanying notes to the financial statements.

Lincoln County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
 For the year ended June 30, 2015

	SCHOOL ACTIVITY FUNDS					
	HUSTONVILLE ELEMENTARY	MCKINNEY ELEMENTARY	STANFORD ELEMENTARY	STANFORD CHARITABLE GAMING	WAYNESBURG ELEMENTARY	FIDUCIARY FUND BALANCES
Revenues						
Student/Trust revenues	\$ 44,034	\$ 23,543	\$ 35,119	\$ 2	\$ 32,780	\$ 958,995
Expenses						
Student/Trust activities	43,141	24,059	56,885		34,293	898,941
Excess (Deficit) of Revenues Over Expenses	893	(517)	(21,767)	2	(1,513)	60,054
Fund Balance-Beginning	27,651	28,418	47,310	-	22,228	358,068
Prior Period Adjustment			(36)	36		-
Restated Fund Balance-Beginning	27,651	28,418	47,274	36	22,228	358,068
Fund Balance-Ending	\$ 28,544	\$ 27,901	\$ 25,507	\$ 38	\$ 20,715	\$ 392,114

See the accompanying notes to the financial statements.

Lincoln County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Lincoln County High School
 For the year ended June 30, 2015

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL	\$ 4,375	\$ 656	\$ 1,029	\$ (74)	\$ 3,928
LCHS SPECIAL ACCT	26	3,001	1,582	(200)	1,245
FLOWER FUND	1,010	209	460	-	758
DISTRICT ATTENDANCE	1,599	200	1,596	-	203
LOCK ACCOUNT	2,192	820	2,219	(267)	526
STUDENT PARKING	7,365	2,325	6,355	-	3,335
SOCIAL COMMITTEE	109	-	-	-	109
BOOK SCHOLARSHIP FUND	14	-	-	-	14
TEACHERS PEPSI ACCT	717	2,023	1,583	-	1,158
PROJECT GRADUATION	1,216	9,731	8,418	-	2,530
PROM ACCOUNT	5,398	11,390	4,491	(183)	12,114
YEARBOOK	9,462	8,868	7,533	162	10,959
STUDENT PEPSI	878	3,550	2,692	(150)	1,586
STUDENT VENDING	230	127	-	-	357
TEACHER VENDING	243	75	268	-	50
PICTURE ACCOUNT	2,202	-	2,598	405	9
HATS ON	55	1,259	1,214	-	100
ART DEPT	10	928	923	-	15
BUSINESS DEPT	3,234	-	540	183	2,878
COMPUTER LAB	411	-	-	-	411
CULINARY	357	-	-	-	357
VO AG SPECIAL	1,301	1,403	1,529	-	1,176
FLORAL DESIGN	305	315	21	-	600
FAMILY & CONS SCIENCE	1,710	-	679	-	1,031
HORTICULTURE	10,604	10,044	13,329	30	7,349
INDUSTRIAL ARTS	1,235	-	660	(10)	565
JOURNALISM	75	-	75	-	-
LANGUAGE ARTS DEPT	33	98	10	(7)	114
MATH DEPT	30	-	-	-	30
PHYSICAL ED DEPT	459	-	-	-	459
SCIENCE FAIR	65	-	-	-	65
MARKETING	401	84	846	622	261
UNITE TO READ	135	-	100	-	35
ATHLETICS	-	46,257	25,507	(10,913)	9,837
AD FINANCIAL AID	3,234	16,267	16,021	3,112	6,591
BASEBALL BC	153	17,326	16,354	-	1,126
BOYS BASKETBALL BC	204	31,255	25,790	(1,785)	3,884
GIRLS BASKETBALL BC	7,064	20,445	21,970	465	6,004
FOOTBALL BC	13,217	52,427	49,679	(3,020)	12,945
BOYS GOLF BC	100	1,370	440	(770)	260
GIRLS GOLF BC	929	550	1,108	-	370
BOYS SOCCER BC	841	13,579	14,323	-	97
GIRLS SOCCER BC	1,137	17,036	17,975	(195)	3
SOFTBALL BC	77	14,406	13,037	(213)	1,233
B & G TENNIS BC	731	5,527	6,090	-	168
BOYS TRACK	180	1,065	825	-	420
CROSS COUNTRY BC	146	5,064	4,488	-	721
GIRLS VOLLEYBALL BC	535	5,985	5,373	-	1,147
BASEBALL DISTRICT	24	-	-	1,405	1,429
CHEERLEADERS	1,024	5,184	5,528	-	680
GIRLS TRAC	189	1,125	825	-	489
DEATH VALLEY BOWL	4,573	22,910	18,478	3,500	12,505
BASS FISHING BC	1,731	250	1,055	-	926
HOSPITALITY ROOM	62	-	-	-	62
REGIONAL BASKETBALL	67	39,273	28,219	(500)	10,621
TRAINING FA	1,881	-	53	-	1,828
ARCHERY BC	515	24,019	9,614	200	15,120
FOOTBALL PLAYOFFS	1,551	-	-	-	1,551
BOWLING BC	-	2,491	2,111	-	380
UNIFORM FA	-	10,000	4,899	-	5,101
BASEBALL FA	-	1,250	1,006	-	244
BOYS BASKETBALL FA	-	3,000	6,628	3,721	93
GIRLS BASKETBALL FA	-	3,005	5,082	3,207	1,130
FOOTBALL FA	-	7,918	5,204	-	2,714
BOYS GOLF FA	-	400	199	-	201
GIRLS GOLF FA	-	410	-	-	410
BOYS SOCCER FA	-	1,250	1,093	-	157
GIRLS SOCCER FA	-	1,255	910	-	345
SOFTBALL FA	-	1,250	240	-	1,010
B & G TENNIS FA	-	810	810	-	0
BOYS TRACK	-	400	400	-	-
CROSS COUNTRY FA	-	810	769	-	41
GIRLS VOLLEYBALL FA	-	1,304	246	-	1,016
CHEERLEADERS FA	-	750	705	(42)	45
GIRLS TRACK	-	410	410	-	-
BASS FISHING FA	-	500	-	-	500
ARCHERY FA	-	750	294	-	456
BOWLING FA	-	500	500	-	-
BETA CLUB	880	982	642	-	1,220
JR GUARD/JROTC	2,267	-	-	-	2,267
SPRING MUSICAL	1,594	5,321	4,761	120	2,274
FBLA	1,213	2,358	3,971	770	369
FCA	953	-	-	-	953
FFA	2,999	18,599	17,462	-	4,137
FCCLA	896	1,930	1,548	(40)	1,238
GUIDANCE DEPT	158	15,963	3,870	(25)	12,227
TEENS FOR CHANGE	161	-	-	-	161
LIBRARY	1,165	1,519	602	25	2,107
NATIONAL HONOR SOCIETY	323	2,398	1,407	-	1,314
TEENAGE REPUBLICANS	170	-	48	-	122
PEP CLUB	2,067	-	-	-	2,067
FEA	708	-	-	-	708
STUDENT Y KYA	1,325	-	-	-	1,325
YOUTH SERVICE CENTER	3,460	2,312	2,471	(40)	3,262
KEY CLUB	2,100	52	-	-	2,152
DRAMA CLUB	414	-	-	-	414
ART HONOR SOCIETY	334	-	-	-	334
BAND	807	9,417	8,886	(120)	1,217
CHORUS	1,938	5,085	4,165	(5)	2,853
SENIOR CLASS	4,457	45,458	49,747	-	168
JUNIOR CLASS	759	-	-	-	759
SOPHMORE CLASS	67	-	-	-	67
FRESHMAN CLASS	261	-	-	-	261
ACADEMIC TEAM	84	-	-	-	84
STUDENT COUNCIL	1,173	41	205	-	1,009
FOREIGN LANGUAGE	313	-	48	(18)	246
ARTS & HUMANITY	9	-	-	-	9
KUNA CLUB	89	4,531	4,588	195	226
RELAY FOR LIFE	64	-	-	-	64
AUDITORIUM/TICKETS	1,467	-	1,287	-	180
AUDITORIUM/RENTAL	573	200	144	-	629
TEXTBOOKS	1,196	1,126	53	-	2,269
PATRIOT PRINTING	-	1,837	1,726	454	565
RUGBY	-	510	240	-	270
NATL FRENCH HONOR	-	6,231	3,703	-	2,528
Totals	\$ 134,063	\$ 562,756	\$ 486,579	\$ 0	\$ 210,240

See the accompanying notes to the financial statements.

Lincoln County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Fort Logan High School
 For the year ended June 30, 2015

	<u>FUND BALANCE BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE ENDING</u>
GENERAL	\$ 904	\$ 56	\$ 139	\$ -	\$ 822
BONUS BUCKS	486	757	1,120	-	123
ARCHERY CLUB	1,339	-	1,256	-	83
	-				-
Totals	<u>\$ 2,730</u>	<u>\$ 813</u>	<u>\$ 2,515</u>	<u>\$ -</u>	<u>\$ 1,028</u>

See the accompanying notes to the financial statements.

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had food commodities totaling \$131,322.

Lincoln County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	\$	N/A \$ 166,705
Fiscal Year 15		7760005 15		N/A 599,584
National School Lunch Program	10.555			
Fiscal Year 14		7750002 14		N/A 338,102
Fiscal Year 15		7750002 15		N/A 1,196,027
Summer Food Service Program For Children	10.559			
Fiscal Year 14		7690024 14		N/A 1,204
Fiscal Year 14		7740023 14		11,596
Child Nutrition Cluster Subtotal				<u>2,313,218</u>
Child & Adult Care	10.558			
Fiscal Year 14		7790021 14		N/A 6,519
Fiscal Year 15		7790021 15		N/A 45,995
Fiscal Year 14		7800016 14		N/A 380
Fiscal Year 15		7800016 15		N/A 3,096
				<u>55,990</u>
Fruit & Vegetable Program	10.582			
Fiscal Year 14		7720012 14		N/A 10,376
Fiscal Year 15		7720012 15		N/A 51,511
				<u>61,887</u>
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950		N/A 131,322
Total US Department of Agriculture				<u>2,562,417</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	1,417,245	34,338
Fiscal Year 14		3100002 14	1,402,703	458,271
Fiscal Year 14M		3100002 14	17,500	3,430
Fiscal Year 15		3100002 15	1,457,373	961,701
Fiscal Year 15M		3100002 15	19,004	12,965
* Title I Grants to Local Educational Agencies - School Improvement Grant	84.010A			
Fiscal Year 14		3100202 14	50,000	13,480
				<u>1,484,185</u>
* Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	929,185	181
Fiscal Year 14		3810002 14	846,455	55,205
Fiscal Year 15		3810002 15	874,264	851,784
* Special Education - Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	106,821	46,813
Fiscal Year 15		3800002 15	106,821	78,187
Special Education Cluster Subtotal				<u>1,032,169</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 13A		4621132 13	2,392	71
Fiscal Year 14		4621132 14	45,852	4,180
Fiscal Year 14A		4621132 14	1,830	1,830
Fiscal Year 15		4621132 15	35,058	25,097
				<u>31,178</u>
Rural Education	84.358B			
Fiscal Year 15		3140002 15	81,483	36,178
Twenty-First Century Community Learning Centers	84.287			
Fiscal Year 13		3400002 13	75,000	7,245
Fiscal Year 13H		3400002 13	150,000	43,691
Fiscal Year 13J		3400002 13	1,000	1,000
Fiscal Year 13Z		3400002 13	7,000	7,000
Fiscal Year 14		3400002 14	150,000	101,311
Fiscal Year 14H		3400002 14	112,500	97,131
				<u>257,378</u>
School Improvement Grants	84.377A			
Fiscal Year 14		3100302 14	469,767	215,963
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14	250,753	174
Fiscal Year 15		3230002 15	249,693	234,974
				<u>235,149</u>
Migrant Education - State Grant Program	84.011			
Fiscal Year 13S		3110002 13	7,896	2,835
Fiscal Year 14		3110002 14	80,700	26,662
Fiscal Year 15		3110002 15	126,313	91,880
				<u>121,376</u>
Passed Through Morehead State University				

See the accompanying notes to the schedule of expenditures of federal awards.

Lincoln County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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
Kentucky Appalachian Higher Education (KYAHED)	23.011			
Fiscal Year 14		AHED	5,000	10
Fiscal Year 15		AHEDA	3,260	2,992
				<u>3,002</u>
Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 15B		379AB	61,125	51,651
Fiscal Year 15C		379AC	5,768	4,031
Fiscal Year 15L		379AL	8,107	4,775
Fiscal Year 15R		379AR	N/A	1,647
Fiscal Year 15S		379AS	51,334	40,323
				<u>102,427</u>
Total US Department of Education				<u>3,519,006</u>
U.S. Department of Labor				
Bluegrass Workforce Investment Board				
WIA Year Round Youth Program	17.259			
Fiscal Year 14		5884	60,000	9,726
Fiscal Year 15		588A	50,000	40,216
Fiscal Year 15A		588AA	N/A	23,802
				<u>73,743</u>
Total U.S. Department of Labor				<u>73,743</u>
U.S. Department of Health and Human Services				
Head Start	93.600			
Fiscal Year 14		04CH4667-02-02	1,369,851	67,599
Fiscal Year 15		04CH4667-02-02	1,463,403	1,405,100
Early Head Start				
Fiscal Year 14		04CH4667-02-02	446,896	37,719
Fiscal Year 15		04CH4667-02-02	477,093	425,049
				<u>1,935,467</u>
Total U.S. Department of Health and Human Services				<u>1,935,467</u>
Total Expenditure of Federal Awards				<u>\$ 8,090,633</u>

* Major program

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

To the Lincoln County Board of Education and
State Committee for School District Audits
Stanford, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control.

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

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

Compliance and Other Matters

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

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

We noted certain matters that we reported to management of the Lincoln County School District, in a separate letter dated November 13, 2015.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

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

To the Lincoln County Board of Education and
State Committee for School District Audits
Stanford, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lincoln 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 Lincoln County School District's major federal programs for the year ended June 30, 2015. Lincoln 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 Lincoln County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln 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 Lincoln County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Lincoln 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 Lincoln County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control over compliance.

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

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

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

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

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

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title 1[CFDA 84.010A] Special Education Cluster [84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

LINCOLN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2015

There were no prior audit findings.