

Ludlow Independent School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2015
With Independent Auditors' Report**

LUDLOW INDEPENDENT SCHOOL DISTRICT

June 30, 2015

Table of Contents

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
District Wide Financial Statements:	
Statement of Net Position - District Wide	8
Statement of Activities - District Wide	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Statement of Net Position – Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Statement of Net Position – Fiduciary Funds	17
Statement of Revenues, Expenses and Changes in Net Position - Fiduciary Funds	18
Notes to the Financial Statements	19-39

LUDLOW INDEPENDENT SCHOOL DISTRICT

June 30, 2015

Table of Contents

Supplementary Information:

Combining Statements - Nonmajor Funds

Combining Balance Sheet - Nonmajor Governmental Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	41
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	42
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	43
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Construction Fund	44
Statement of Receipts, Disbursements and Fund Balance - Bond and Interest Redemption Funds	45
Statement of Receipts, Disbursements and Fund Balance – Ludlow Independent High School Activity Fund	46
Statement of Receipts, Disbursements and Fund Balance - School Activity Fund	47
Schedule of the District's Proportionate Share of the Net Pension Liability – KTRS	48
Schedule of District Contributions – KTRS	49
Schedule of the District's Proportionate Share of the Net Pension Liability – CERS	50
Schedule of District Contributions – CERS	51
Schedule of Expenditures of Federal Awards	52
Notes to the Schedule of Expenditures of Federal Awards	53
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54-55
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	56-57
Schedule of Findings and Questioned Costs	58-59
Management Letter Comments	60-62



Independent Auditors' Report

To the Members of the Board of Education
Ludlow Independent School District
Ludlow, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ludlow Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Ludlow Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Ludlow Independent School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BARNES DENNIG

Independent Auditors' Report (Continued)

Other Matters

Change in Accounting Principle

As described in note 17 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this item.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 Ludlow Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Barnes, Dennig & Co., Ltd.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015

As management of Ludlow Independent Board of Education (Board), the governing body for the Ludlow Independent 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 and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments, for the District was \$3,610,684
- Average Daily Attendance (ADA) for fiscal year 2015 was 767. Over the previous five years we have had a decrease in ADA of about 48. Our attendance trend is shifting due to the fact that our elementary class sizes are larger and are moving in to our high school. This increase allowed us to see our ADA rise this past year due to these class size increases.
- The General Fund had \$6,809,453 in revenue (net of interfund transfers of \$73,315), which primarily consisted of the state program (SEEK), property taxes, local occupational license taxes, utilities taxes, and motor vehicle taxes. There was \$7,168,846 in General Fund expenditures (net of interfund transfers of \$39,460). Budgeted contingency funds were \$420,000 in the General Fund 2015.
- The ending unassigned fund balance in the General Fund for fiscal year 2015 is \$845,581. This is a decrease of \$329,973 from 2014. From year to year the state legislature is requiring the District to absorb more and more mandated expenses, while at the same time they continue to cut grant funding.
- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past five years and will pay millions of dollars in the future in an effort to help stabilize the fund. For the first time this year we are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more of this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Ludlow Independent School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)

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 are comprised of three components: 1) district-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.

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

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

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

The district-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 is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

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

The basic governmental fund financial statements can be found on pages 10 through 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 39 of this report.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

DISTRICT-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 by \$1,908,134 as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (i.e. 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 periods ending June 30, 2015 and 2014

The following is a summary of net position for the fiscal years ended June 30, 2015 and 2014.

	2015	2014
Current assets	\$ 1,308,729	\$ 3,911,006
Noncurrent assets	7,485,883	5,946,630
Total assets	8,794,612	9,857,636
 Total deferred outflows	 154,780	 -
Current liabilities	581,765	1,169,532
Noncurrent liabilities	6,459,493	5,662,045
Total liabilities	7,041,258	6,831,577
 Net position		
Investment in capital assets (net of debt)	1,825,241	(63,665)
Restricted	161,644	2,885,965
Unassigned	(78,751)	203,759
Total net position	\$ 1,908,134	\$ 3,026,059

Comments on General Fund Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2015, including interfund transfers of \$73,315, were \$6,965,982.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$1,620,868 more than budget or approximately 30.8% of the General Fund budget. The majority of this variance is the result of the District recording "on behalf" payments made by the state.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Comments on General Fund Budget Comparisons (Continued)

- The total cost of all General Fund programs and services was \$7,291,520 including debt service and interfund transfers of \$39,460.
- General Fund actual expenditures exceeded budgeted expenditures by \$946,406. The majority of this variance is the result of the District recording "on behalf" payments made by the state.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2015 and 2014.

	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 67,820	\$ 134,997
Operating grants and contributions	1,661,708	1,222,391
Capital grants and contributions	439,911	361,913
Total grant revenues	2,169,439	1,719,301
General revenues:		
Property taxes	2,082,791	2,135,710
Grants and entitlements	5,452,113	4,551,544
Earnings on investments	9,195	14,547
Miscellaneous	158,135	18,686
Total general revenues	7,702,234	6,720,487
Total revenues	9,871,673	8,439,788
Expenses:		
Instruction	5,663,745	4,513,785
Student support services	347,273	212,592
Instructional support	599,822	526,778
District administration	618,627	579,383
School administration	599,849	575,523
Business support	191,468	184,075
Plant operations	939,502	756,077
Student transportation	55,748	48,077
Community support	81,237	73,226
Food service	539,334	467,424
Interest	211,993	131,282
Total expenses	9,848,598	8,068,222
Excess (deficit) of revenues over expenses	\$ 23,075	\$ 371,566

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

BUDGETARY IMPLICATIONS

Ludlow Independent School District administered federal and state grant funds totaling \$790,571. Below is a three year comparison of our federal and state grant funds:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Grants	\$ 321,725	\$ 261,017	\$ 239,393
Federal Grants	\$ 468,846	\$ 432,650	\$ 416,811

The working budget contingency balance in the General Fund for fiscal year 2015 was \$420,000 (6.7%). The Kentucky Department of Education mandates a minimum 2.0% contingency for budgeting purposes. The beginning carry forward balance for 2016 is slightly higher than 2015. With the cuts in state and federal funding, the ability to sustain/grow the carry forward is always an ongoing concern that we keep a cautious eye on. Due to the stress of implementing mandated curriculum changes we will continually have to look at different ways to accomplish the high standards we set for ourselves.

Fiscal year 2016 is already upon us and we are doing our best to balance the financial outlook with what is best for the students of Ludlow Independent School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Mr. Michael Borchers, Superintendent, at (859) 261-8210 or by mail at Ludlow Independent School District, 525 Elm St., Ludlow, KY 41016.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – District Wide
Year Ended June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ (68,686)	\$ 183,403	\$ 114,717
Investments	1,002,779	-	1,002,779
Accounts receivable	157,714	9,093	166,807
Inventories for consumption	-	24,426	24,426
Total current	<u>1,091,807</u>	<u>216,922</u>	<u>1,308,729</u>
Noncurrent			
Nondepreciated capital assets:			
Land	391,300	-	391,300
Depreciated capital assets:			
Land improvements	112,189	-	112,189
Buildings and improvements	11,619,821	-	11,619,821
Furniture and equipment	1,626,035	125,978	1,752,013
Less: accumulated depreciation	<u>(6,289,095)</u>	<u>(100,345)</u>	<u>(6,389,440)</u>
Total noncurrent	<u>7,460,250</u>	<u>25,633</u>	<u>7,485,883</u>
Total assets	<u>8,552,057</u>	<u>242,555</u>	<u>8,794,612</u>
Deferred Outflows	<u>149,662</u>	<u>5,118</u>	<u>154,780</u>
Liabilities			
Current			
Current portion of bonds payable	360,102	-	360,102
Accounts payable	126,352	320	126,672
Accrued interest	22,000	-	22,000
Accrued sick leave	1,995	-	1,995
Accrued payroll and related expenses	10,603	-	10,603
Assessed KISBIT liability	23,138	-	23,138
Unearned revenues	<u>37,255</u>	<u>-</u>	<u>37,255</u>
Total current	<u>581,445</u>	<u>320</u>	<u>581,765</u>
Noncurrent			
Accrued sick leave	17,953	-	17,953
CERS net pension liability	1,103,274	37,726	1,141,000
Bond obligations	<u>5,300,540</u>	<u>-</u>	<u>5,300,540</u>
Total noncurrent	<u>6,421,767</u>	<u>37,726</u>	<u>6,459,493</u>
Total liabilities	<u>7,003,212</u>	<u>38,046</u>	<u>7,041,258</u>
Net Position			
Invested in capital assets, net of related debt	1,799,608	25,633	1,825,241
Restricted	72,016	89,628	161,644
Unrestricted	<u>(173,117)</u>	<u>94,366</u>	<u>(78,751)</u>
Total net position	<u>\$ 1,698,507</u>	<u>\$ 209,627</u>	<u>\$ 1,908,134</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Statement of Activities – District Wide
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	
Governmental Activities:							
Instructional	\$ 5,663,745	\$ 19,050	\$ 612,606	\$ -	\$ (5,032,089)	\$ -	\$ (5,032,089)
Student support services	347,273	-	177,819	-	(169,454)	-	(169,454)
Staff support services	599,822	-	153,416	-	(446,406)	-	(446,406)
District administration	618,627	-	20,713	-	(597,914)	-	(597,914)
School administration	599,849	-	-	-	(599,849)	-	(599,849)
Business support services	191,468	-	-	-	(191,468)	-	(191,468)
Plant operation and maintenance	939,502	-	-	-	(939,502)	-	(939,502)
Student transportation	55,748	-	-	-	(55,748)	-	(55,748)
Community service operations	81,237	-	80,902	-	(335)	-	(335)
Facility acquisition and construction	-	-	-	439,911	439,911	-	439,911
Interest on long-term debt	211,993	-	-	-	(211,993)	-	(211,993)
Total governmental activities	9,309,264	19,050	1,045,456	439,911	(7,804,847)	-	(7,804,847)
Business-type Activities							
Food service	539,334	48,770	616,252	-	-	125,688	125,688
Total business-type activities	539,334	48,770	616,252	-	-	125,688	125,688
Total school district	\$ 9,848,598	\$ 67,820	\$ 1,661,708	\$ 439,911	\$ (7,804,847)	\$ 125,688	\$ (7,679,159)
General revenues:							
Taxes					\$ 2,082,791	\$ -	\$ 2,082,791
State and federal sources					5,452,113	-	5,452,113
Investment earnings					8,873	322	9,195
Miscellaneous					158,286	-	158,286
Special items:							
Loss on disposal of assets					(151)	-	(151)
Transfers					26,514	(26,514)	-
Total general and special revenues					7,728,426	(26,192)	7,702,234
Change in net position					(76,421)	99,496	23,075
Net position - beginning					2,878,202	147,857	3,026,059
Net position adjustment (Note 17)					(1,103,274)	(37,726)	(1,141,000)
Net position - ending					\$ 1,698,507	\$ 209,627	\$ 1,908,134

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
Year Ended June 30, 2015**

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Current					
Cash and cash equivalents	\$ (98,883)	\$ (35,794)	\$ 65,451	\$ 540	\$ (68,686)
Investments	1,002,779	-	-	-	1,002,779
Accounts receivable	26,099	131,615	-	-	157,714
	<u>\$ 929,995</u>	<u>\$ 95,821</u>	<u>\$ 65,451</u>	<u>\$ 540</u>	<u>\$ 1,091,807</u>
Liabilities and Fund Balance					
Current					
Accounts payable	\$ 67,786	\$ 58,566	\$ -	\$ -	\$ 126,352
Checks written in excess of cash balance			-	-	-
Accrued payroll and related expenses	10,603	-	-	-	10,603
Unearned revenues	-	37,255	-	-	37,255
	<u>78,389</u>	<u>95,821</u>	<u>-</u>	<u>-</u>	<u>174,210</u>
Fund Balance					
Restricted					
KSFCC Escrow	-	-	-	540	540
Capital Projects	-	-	65,451	-	65,451
Assigned					
Purchase obligations	6,025	-	-	-	6,025
Unassigned	845,581	-	-	-	845,581
	<u>851,606</u>	<u>-</u>	<u>65,451</u>	<u>540</u>	<u>917,597</u>
Total fund balance	<u>\$ 851,606</u>	<u>\$ -</u>	<u>\$ 65,451</u>	<u>\$ 540</u>	<u>\$ 917,597</u>
Total liabilities and fund balance	<u>\$ 929,995</u>	<u>\$ 95,821</u>	<u>\$ 65,451</u>	<u>\$ 540</u>	<u>\$ 1,091,807</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
As of June 30, 2015**

Total governmental fund balance		\$ 917,597
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	13,749,345	
Accumulated depreciation	<u>(6,289,095)</u>	7,460,250
Deferred outflows for CERS contributions made after the measurement date		149,662
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(5,660,642)
Accrued interest on bonds		(22,000)
Assessed KISBIT liability		(23,138)
Net pension liability		(1,103,274)
Accrued sick leave		<u>(19,948)</u>
Total net position - governmental		<u>\$ 1,698,507</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 1,961,664	\$ -	\$ -	\$ 121,127	\$ 2,082,791
Earnings on investments	8,873	-	-	-	8,873
State sources	4,769,757	371,137	-	439,911	5,580,805
Federal sources	23,063	647,811	-	-	670,874
Other sources	46,096	8,086	-	-	54,182
	<u>6,809,453</u>	<u>1,027,034</u>	<u>-</u>	<u>561,038</u>	<u>8,397,525</u>
Total revenues					
Expenditures:					
Instructional	4,237,888	612,606	-	-	4,850,494
Student support services	169,454	177,819	-	-	347,273
Staff support services	446,247	153,416	-	-	599,663
District administration	584,745	20,713	-	-	605,458
School administration	599,707	-	-	-	599,707
Business support services	191,468	-	-	-	191,468
Plant operation and maintenance	892,330	-	-	-	892,330
Student transportation	47,007	-	-	-	47,007
Central office	-	-	-	-	-
Community service operations	-	80,902	-	-	80,902
Facility acquisition and construction	-	-	1,796,751	-	1,796,751
Debt service:					
Principal	-	-	-	349,653	349,653
Interest	-	-	-	211,993	211,993
	<u>7,168,846</u>	<u>1,045,456</u>	<u>1,796,751</u>	<u>561,646</u>	<u>10,572,699</u>
Total expenditures					
Excess(deficit) of revenues over expenditures	<u>(359,393)</u>	<u>(18,422)</u>	<u>(1,796,751)</u>	<u>(608)</u>	<u>(2,175,174)</u>
Other financing sources(uses):					
Operating transfers in	156,529	18,422	-	447,310	622,261
Operating transfers out	<u>(122,674)</u>	<u>-</u>	<u>-</u>	<u>(473,073)</u>	<u>(595,747)</u>
	<u>33,855</u>	<u>18,422</u>	<u>-</u>	<u>(25,763)</u>	<u>26,514</u>
Total other financing sources(uses)					
Net change in fund balance	(325,538)	-	(1,796,751)	(26,371)	(2,148,660)
Fund balance, July 1, 2014	<u>1,177,144</u>	<u>-</u>	<u>1,862,202</u>	<u>26,911</u>	<u>3,066,257</u>
Fund balance, June 30, 2015	<u>\$ 851,606</u>	<u>\$ -</u>	<u>\$ 65,451</u>	<u>\$ 540</u>	<u>\$ 917,597</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
Year Ended June 30, 2015**

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

Net changes-governmental funds		\$ (2,148,660)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Depreciation expense	(261,871)	
Retirement of capital assets	(151)	
Capital outlays	1,810,140	1,548,118
<p>Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Bond principal paid	349,653	349,653
<p>Deferred outflow CERS contributions made after the measurement date</p>		
		149,662
<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>		
		24,806
Changes in net position of governmental activities		\$ (76,421)

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Proprietary Funds
As of June 30, 2015**

	Food Service	Total
Assets		
Current		
Cash and cash equivalents	\$ 183,403	\$ 183,403
Accounts receivable	9,093	9,093
Inventories for consumption	24,426	24,426
Total current	216,922	216,922
Noncurrent		
Furniture and fixtures	125,978	125,978
Less accumulated depreciation	(100,345)	(100,345)
Total noncurrent	25,633	25,633
Total assets	242,555	242,555
Deferred outflows	5,118	5,118
Liabilities and Net Position		
Current		
Accounts payable	320	320
CERS net pension liability	37,726	37,726
Total current	38,046	38,046
Net Position		
Invested in assets, net of debt	25,633	25,633
Restricted	89,628	89,628
Unrestricted	94,366	94,366
Total net position	\$ 209,627	\$ 209,627

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position –
Proprietary Funds
Year Ended June 30, 2015**

	Food Service	Total
Operating revenues:		
Lunchroom sales	\$ 43,594	\$ 43,594
Other operating revenues	5,176	5,176
	48,770	48,770
Operating expenses:		
Salaries and benefits	240,642	240,642
Contract services	14,600	14,600
Materials and supplies	274,075	274,075
Depreciation	9,479	9,479
Other operating expenses	538	538
	539,334	539,334
Total operating expenses	539,334	539,334
Operating loss	(490,564)	(490,564)
Nonoperating revenues (expenses):		
Federal grants	567,079	567,079
State grants	27,174	27,174
Donated commodities and other donations	21,999	21,999
Transfers	(26,514)	(26,514)
Interest income	322	322
	590,060	590,060
Total non-operating revenue	590,060	590,060
Change in net position	99,496	99,496
Total net position, July 1, 2014	147,857	147,857
Net position adjustment	(37,726)	(37,726)
Total net position, June 30, 2015	\$ 209,627	\$ 209,627

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2015**

	Food Service Fund	Total
Cash flows from operating activities		
Cash received from lunchroom sales	\$ 43,594	\$ 43,594
Cash received from other activities	9,661	9,661
Cash payments to employees for services	(245,760)	(245,760)
Cash payments to suppliers for goods and services	(291,146)	(291,146)
Cash transfer	(26,514)	(26,514)
	(510,165)	(510,165)
Net cash used in operating activities		
Cash flows from capital financing activities		
Acquisition of capital assets	(614)	(614)
	(614)	(614)
Net cash used in capital financing activities		
Cash flows from noncapital financing activities		
Non-operating revenues received	616,252	616,252
	616,252	616,252
Net cash provided by noncapital financing activities		
Cash flows from investing activities		
Interest on investments	322	322
	322	322
Net cash provided by investing activities		
Net increase in cash and cash equivalents	105,795	105,795
Cash and cash equivalents - beginning	77,608	77,608
Cash and cash equivalents - ending	\$ 183,403	\$ 183,403
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (490,564)	\$ (490,564)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	9,479	9,479
Interfund transfers	(26,514)	(26,514)
Changes in assets and liabilities:		
(Increase) in deferred outflows	(5,118)	(5,118)
(Increase) in inventory	(2,253)	(2,253)
Decrease in accounts receivable	4,485	4,485
Increase in accounts payable	320	320
	(510,165)	(510,165)
Net cash used in operating activities		
Schedule of non-cash transactions		
Donated commodities received from federal government	\$ 21,999	\$ 21,999
	21,999	21,999

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Fiduciary Funds
As of June 30, 2015**

	<u>Trust/Agency Fund</u>	<u>School Activity</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	<u>\$ 66,943</u>	<u>\$ 89,529</u>	<u>\$ 156,472</u>
Total current assets	<u>66,943</u>	<u>89,529</u>	<u>156,472</u>
Total assets	<u>66,943</u>	<u>89,529</u>	<u>156,472</u>
Liabilities and Net Position			
Liabilities			
Due to student groups	<u>-</u>	<u>89,529</u>	<u>89,529</u>
Total liabilities	<u>-</u>	<u>89,529</u>	<u>89,529</u>
Net Position			
Restricted	<u>66,943</u>	<u>-</u>	<u>66,943</u>
Total net position	<u>\$ 66,943</u>	<u>\$ -</u>	<u>\$ 66,943</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2015

	<u>Trust/Agency Fund</u>	<u>Total</u>
Additions		
Investment income	\$ 26	\$ 26
Private donations	<u>16,957</u>	<u>16,957</u>
Total additions	<u>16,983</u>	<u>16,983</u>
Deductions		
Instruction	<u>18,400</u>	<u>18,400</u>
Total deductions	<u>18,400</u>	<u>18,400</u>
Change in net position	(1,417)	(1,417)
Net position - July 1, 2014	<u>68,360</u>	<u>68,360</u>
Net position - June 30, 2015	<u>\$ 66,943</u>	<u>\$ 66,943</u>

The accompanying notes are an integral part of these financial statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Ludlow Independent 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 Ludlow Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Ludlow Independent 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 Board itself such as 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:

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

Basis of Presentation

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

The district-wide 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 district-wide statements and the statements for governmental funds.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular 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 total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 53. This is a major fund of the District.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

I. Governmental Fund Types (continued)

- (C) 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 Funds).
- 1. 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 identified in the District's facility plan.
- 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. 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.

III. Proprietary Fund (Enterprise 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). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

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

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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.

Nonexchange 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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a 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 they 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 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 which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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 into the General Fund and then transferred to the appropriate fund.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets 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 district-wide statement of net assets and in the respective funds.

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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

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

Accumulated Unpaid Sick Leave Benefits

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. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

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

Accrued Liabilities and Long-Term Obligations

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

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

Beginning with fiscal year 2012 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as 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.

NOTE 2 ESTIMATES

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

NOTE 3 CASH AND CASH EQUIVALENTS

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 4 CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Land	\$ 391,300	\$ -	\$ -	\$ 391,300
Land improvements	112,189	-	-	112,189
Buildings and improvements	8,278,314	3,341,507	-	11,619,821
Technology equipment	1,225,999	13,389	15,184	1,224,204
Vehicles	192,115	-	-	192,115
General equipment	209,716	-	-	209,716
Construction work in progress	1,544,756	-	1,544,756	-
Totals at historical cost	<u>11,954,389</u>	<u>3,354,896</u>	<u>1,559,940</u>	<u>13,749,345</u>
Less: accumulated depreciation				
Land improvements	92,491	2,609	-	95,100
Buildings and improvements	4,566,736	189,828	-	4,756,564
Technology equipment	1,114,571	46,127	15,033	1,145,665
Vehicles	105,876	16,763	-	122,639
General equipment	162,583	6,544	-	169,127
Total accumulated depreciation	<u>6,042,257</u>	<u>261,871</u>	<u>15,033</u>	<u>6,289,095</u>
Governmental activities capital assets - net	<u>\$ 5,912,132</u>	<u>\$ 3,093,025</u>	<u>\$ 1,544,907</u>	<u>\$ 7,460,250</u>
<u>Business - Type Activities</u>				
General equipment	\$ 65,909	\$ -	\$ -	\$ 65,909
Buildings and improvements	51,659	-	-	51,659
Technology equipment	7,796	614	-	8,410
Totals at historical cost	<u>125,364</u>	<u>614</u>	<u>-</u>	<u>125,978</u>
Less: accumulated depreciation				
General equipment	58,236	1,489	-	59,725
Buildings and improvements	25,830	7,380	-	33,210
Technology equipment	6,800	610	-	7,410
Total accumulated depreciation	<u>90,866</u>	<u>9,479</u>	<u>-</u>	<u>100,345</u>
Business - type activities capital assets - net	<u>\$ 34,498</u>	<u>\$ (8,865)</u>	<u>\$ -</u>	<u>\$ 25,633</u>

Depreciation expense by function for the fiscal year ended June 30, 2015 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instruction	\$ 171,051	\$ -
Staff support services	159	-
District administration	13,169	-
School administration	142	-
Plant operation and maintenance	68,274	-
Student transportation	8,741	-
Community services	335	-
Food service	-	9,479
Total	<u>\$ 261,871</u>	<u>\$ 9,479</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2015 this amount totaled approximately \$19,948 for those employees with twenty-seven or more years of experience.

NOTE 6 LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
July 30, 2003	\$ 405,000	4.600%
May 1, 2006	990,000	4.000% - 4.300%
July 1, 2007	425,000	4.125% - 4.200%
December 1, 2007	915,000	3.600% - 4.000%
March 1, 2009	1,200,000	3.150% - 3.400%
December 1, 2009	135,959	2.700% - 3.000%
February 1, 2014	3,095,000	1.000% - 4.125%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Ludlow Independent School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note 16 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service (principal and interest) are reported in Note 16.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statement
(Continued)

NOTE 7 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

Plan description

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

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
	Reduced retirement	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.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statement
(Continued)

NOTE 7 RETIREMENT PLANS (CONTINUED)

Contributions

Required contributions by the employee are based on the following tier:

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

The contribution requirement for CERS for the year ended June 30, 2015, was \$199,223, which consisted of \$154,780 from the District and \$44,443 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$168,329 and \$204,522, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

General information about the Teachers' Retirement System of the State of Kentucky

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—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

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

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

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 RETIREMENT PLANS (CONTINUED)

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. 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 contribution requirement for KTRS for the year ended June 30, 2015, was \$660,809, which consisted of \$139,870 from the District and \$520,939 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$417,736 and \$540,905, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

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

Medical Insurance Plan

Plan description

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

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees 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.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 RETIREMENT PLANS (CONTINUED)

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 the CERS net pension liability	\$ 1,141,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>25,919,015</u>
	<u>\$ 27,060,015</u>

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.035182% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$168,329 related to CERS and \$1,270,084 related to KTRS. The District also recognized revenue of \$1,270,084 for KTRS support provided by the Commonwealth. At June 30, 2014, 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>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 127,000
District contributions subsequent to the measurement date	<u>154,780</u>	<u>-</u>
Total	<u>\$ 154,780</u>	<u>\$ 127,000</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 RETIREMENT PLANS (CONTINUED)

\$154,780 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ 25,400
2017	25,400
2018	25,400
2019	25,400
2020	25,400

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 RETIREMENT PLANS (CONTINUED)

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 and CER's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>KTRS Long-Term Expected Real Rate of Return</u>	<u>CERS Target Allocation</u>	<u>CERS Long-Term Expected Real Rate of Return</u>
US equity	45%	6.40%	30%	8.45%
Non-US equity	17%	6.50%	22%	8.85%
Emerging market equity	-	-	5%	10.50%
Private equity	-	-	7%	1.25%
Core US fixed income	-	-	10%	5.25%
High yield US fixed income	-	-	5%	7.25%
Non-US fixed incomes	-	-	5%	5.50%
Commodities	-	-	5%	7.75%
TIPS	-	-	5%	5.00%
Fixed income	24%	1.60%	-	-
High yield bonds	4%	3.10%	-	-
Real estate	4%	5.80%	5%	7.00%
Alternatives	4%	6.80%	-	-
Cash	2%	1.50%	1%	3.25%
Total	<u>100%</u>		<u>100%</u>	

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.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 RETIREMENT PLANS (CONTINUED)

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate

The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	1,501,480	1,141,000	822,508
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 8 CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE 9 INSURANCE AND RELATED ACTIVITIES

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 DEFICIT OPERATING/FUND BALANCES

The District currently has no funds with a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

General Fund	\$ 325,538
Construction Fund	1,796,751
Trust/Agency Fund	1,417
Capital Outlay Fund	99,808
Debt Service Fund	805
Ludlow High School	8,248
Mary A. Goetz Elementary	1,603

NOTE 12 COBRA

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

NOTE 13 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2015, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$22,138. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 14 TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Food Service Fund	General Fund	Indirect Costs Transfers	\$ 26,514
General Fund	Special Revenue Fund	Matching	\$ 18,422
General Fund	Building Fund	Operations	\$ 83,214
Capital Outlay Fund	General Fund	Operations	\$ 109,882
Building Fund	General Fund	Operations	\$ 20,133
General Fund	Debt Service Fund	Debt Service	\$ 21,038
Building Fund	Debt Service Fund	Debt Service	\$ 276,358
Capital Outlay Fund	Debt Service Fund	Debt Service	\$ 66,700

NOTE 15 ON-BEHALF PAYMENTS

For the year ended June 30, 2015 total payments of \$1,552,607 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 1,328,688
Debt Service	196,745
Food Service	<u>27,174</u>
Total On-Behalf	<u>\$ 1,552,607</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 16 SCHEDULE OF LONG-TERM OBLIGATIONS

2003 KISTA, 2006, 2007, 2007B, 2009, 2009 Kista and 2014 Issues

FISCAL YEAR	Ludlow Independent School District			KY School Facilities Construction Commission			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2015-2016	\$ 244,078	\$ 122,885	\$ 366,963	\$ 116,024	\$ 77,736	\$ 193,760	\$ 560,723
2016-2017	258,451	114,155	372,606	122,089	74,314	196,403	569,009
2017-2018	266,734	104,877	371,611	123,266	70,430	193,696	565,307
2018-2019	240,130	95,996	336,126	124,870	66,442	191,312	527,438
2019-2020	168,675	90,813	259,488	131,325	62,310	193,635	453,123
2020-2021	167,013	86,326	253,339	137,987	57,799	195,786	449,125
2021-2022	175,175	81,546	256,721	139,827	52,919	192,746	449,467
2022-2023	178,078	75,952	254,030	146,922	47,687	194,609	448,639
2023-2024	185,801	69,979	255,780	149,197	42,228	191,425	447,205
2024-2025	193,309	63,345	256,654	156,691	36,385	193,076	449,730
2025-2026	200,723	56,425	257,148	162,277	30,244	192,521	449,669
2026-2027	144,313	48,713	193,026	145,687	23,621	169,308	362,334
2027-2028	147,475	43,481	190,956	132,525	18,224	150,749	341,705
2028-2029	150,506	37,951	188,457	54,494	14,624	69,118	257,575
2029-2030	148,327	31,931	180,258	58,673	12,444	71,117	251,375
2030-2031	151,060	25,998	177,058	58,940	10,137	69,077	246,135
2031-2032	158,701	19,955	178,656	61,299	7,820	69,119	247,775
2032-2033	161,250	13,607	174,857	63,750	5,368	69,118	243,975
2033-2034	168,620	6,956	175,576	66,380	2,778	69,158	244,734
	<u>\$ 3,508,419</u>	<u>\$ 1,190,891</u>	<u>\$ 4,699,310</u>	<u>\$ 2,152,223</u>	<u>\$ 713,510</u>	<u>\$ 2,865,733</u>	<u>\$ 7,565,043</u>

A summary of the changes in the principal of the outstanding bond obligations and the capital leases for the District during the year ended June 30, 2015 is as follows:

Governmental Activities	Balance July 1, 2014	Additions	Payments	Balance June 30, 2015
Bond Obligations	\$ 6,010,295	\$ -	\$ 349,653	\$ 5,660,642

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 17 CHANGE IN ACCOUNTING PRINCIPLE

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.

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 \$1,141,000 reduction in beginning net position on the Statement of Activities and an increase of \$154,780 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE 18 SUBSEQUENT EVENTS

Subsequent events were considered through November 13, 2015, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

LUDLOW INDEPENDENT SCHOOL DISTRICT

Combining Balance Sheet – Nonmajor Governmental Funds
As of June 30, 2015

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Government Funds</u>
Assets				
Current:				
Cash and cash equivalents	\$ -	\$ 540	\$ -	\$ 540
Total current	<u>\$ -</u>	<u>\$ 540</u>	<u>\$ -</u>	<u>\$ 540</u>
Liabilities and Fund Balances				
Liabilities:				
Checks written in excess of cash balance	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted:				
KSFCC Escrow	-	540	-	540
Total fund balances	<u>-</u>	<u>540</u>	<u>-</u>	<u>540</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 540</u>	<u>\$ -</u>	<u>\$ 540</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures and Changes
In Fund Balances – Nonmajor Governmental Funds
As of June 30, 2015**

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Government Funds
Revenues:				
Taxes	\$ -	\$ 121,127	\$ -	\$ 121,127
State sources	76,774	166,392	196,745	439,911
Total revenues	<u>76,774</u>	<u>287,519</u>	<u>196,745</u>	<u>561,038</u>
Expenditures:				
Debt service:				
Principal	-	-	349,653	349,653
Interest	-	-	211,993	211,993
Total expenditures	<u>-</u>	<u>-</u>	<u>561,646</u>	<u>561,646</u>
Excess (deficit) of revenues over expenditures	<u>76,774</u>	<u>287,519</u>	<u>(364,901)</u>	<u>(608)</u>
Other Financing Sources (Uses)				
Operating transfers in	-	83,214	364,096	447,310
Operating transfers out	<u>(176,582)</u>	<u>(296,491)</u>	<u>-</u>	<u>(473,073)</u>
Total other financing sources(uses)	<u>(176,582)</u>	<u>(213,277)</u>	<u>364,096</u>	<u>(25,763)</u>
Net change in fund balance	(99,808)	74,242	(805)	(26,371)
Fund balance, July 1, 2014	<u>99,808</u>	<u>(73,702)</u>	<u>805</u>	<u>26,911</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ 540</u>	<u>\$ -</u>	<u>\$ 540</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 1,821,000	\$ 1,821,000	\$ 1,961,664	\$ 140,664
Earnings on investments	10,000	10,000	8,873	(1,127)
State sources	3,374,900	3,374,900	4,769,757	1,394,857
Federal sources	10,000	10,000	23,063	13,063
Other sources	46,000	46,000	202,625	156,625
Total revenues	5,261,900	5,261,900	6,965,982	1,704,082
Expenditures				
Instructional	3,277,873	3,277,873	4,237,888	(960,015)
Student support services	142,458	142,458	169,454	(26,996)
Staff support services	386,698	386,698	446,247	(59,549)
District administration	521,105	521,105	584,745	(63,640)
School administration	491,922	491,922	599,707	(107,785)
Business support services	187,629	187,629	191,468	(3,839)
Plant operation and maintenance	742,625	742,625	892,330	(149,705)
Student transportation	50,642	50,642	47,007	3,635
Other	460,948	460,948	122,674	338,274
Total expenditures	6,261,900	6,261,900	7,291,520	(1,029,620)
Net change in fund balance	(1,000,000)	(1,000,000)	(325,538)	674,462
Fund balance, July 1, 2014	1,000,000	1,000,000	1,177,144	177,144
Fund balance, June 30, 2015	\$ -	\$ -	\$ 851,606	\$ 851,606

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Special Revenue Fund
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
State sources	\$ 327,372	\$ 374,403	\$ 371,137	\$ (3,266)
Federal sources	425,392	529,742	647,811	118,069
Other sources	26,000	29,000	26,508	(2,492)
Total revenues	778,764	933,145	1,045,456	112,311
Expenditures				
Instructional	569,730	615,242	612,606	2,636
Student support services	42,157	52,157	177,819	(125,662)
Staff support services	80,160	177,701	153,416	24,285
District administration	10,180	10,180	20,713	(10,533)
Community service operations	76,537	77,865	80,902	(3,037)
Total expenditures	778,764	933,145	1,045,456	(112,311)
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2014	-	-	-	-
Fund balance, June 30, 2015	\$ -	\$ -	\$ -	\$ -

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Construction Fund
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Facility acquisition and construction	-	-	1,796,751	(1,796,751)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,796,751</u>	<u>(1,796,751)</u>
Net change in fund balance	-	-	(1,796,751)	(1,796,751)
Fund balance, July 1, 2014	<u>-</u>	<u>-</u>	<u>1,862,202</u>	<u>1,862,202</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,451</u>	<u>\$ 65,451</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Bond and Interest Redemption Funds
For the Year Ended June 30, 2015**

	<u>Issue of 2003 Kista</u>	<u>Issue of 2006</u>	<u>Issue of 2007</u>	<u>Issue of 2007B</u>
Cash at July 1, 2014	\$ -	\$ -	\$ -	\$ -
Receipts:				
Transfers and miscellaneous deposits	35,290	84,655	33,568	67,605
Disbursements:				
Bonds paid	30,000	50,000	20,000	40,000
Interest coupons	5,290	34,655	13,568	27,605
Total disbursements	35,290	84,655	33,568	67,605
Excess of receipts over disbursements	-	-	-	-
Cash at June 30, 2015	-	-	-	-
Fund balance at June 30, 2015	\$ -	\$ -	\$ -	\$ -

	<u>Issue of 2009 Kista</u>	<u>Issue of 2009</u>	<u>Issue of 2014</u>	<u>Total</u>
Cash at July 1, 2014	\$ -	\$ -	\$ -	\$ -
Receipts:				
Transfers and miscellaneous deposits	21,038	175,225	144,265	561,646
Disbursements:				
Bonds paid	19,653	150,000	40,000	349,653
Interest coupons	1,385	25,225	104,265	211,993
Total disbursements	21,038	175,225	144,265	561,646
Excess of receipts over disbursements	-	-	-	-
Cash at June 30, 2015	-	-	-	-
Fund balance at June 30, 2015	\$ -	\$ -	\$ -	\$ -

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Ludlow Independent High School Activity Fund
For the Year Ended June 30, 2015**

Account #	Fund Balance July 1, 2014	Receipts	Disbursements	Fund Balance June 30, 2015
100 Principal's Ohlce	\$ 2,483	\$ 1,302	\$ 3,210	\$ 576
105 Postage	235	19	-	254
110 Staff Generated	139	-	75	64
140 Ludlow Christian Scholars	15,899	67	3,000	12,965
180 Service Learning	365	473	338	500
190 Central Office	421	777	-	1,197
200 Book Rental	5,351	5,677	11,028	-
210 Student Fees	842	11,656	8,803	3,695
220 Technology	3,926	1,421	4,838	509
300 Athletic AD	2,268	38,962	31,342	9,888
305 Softball	269	1,130	1,230	169
310 Volleyball	1,735	11,024	10,227	2,532
315 Soccer	1	466	466	1
320 Track	149	5,911	4,516	1,543
325 Baseball	1,848	8,230	3,676	6,402
330 Football	1,845	31,249	29,840	3,255
340 HS Cheerleading	4,653	6,967	8,257	3,362
345 Boys Basketball	2,149	27,504	26,952	2,701
350 Gins Basketball	7,352	9,282	15,465	1,169
355 Cross Country	-	600	600	-
360 Band	3,119	9,310	9,263	3,165
365 Band Drinks	5,275	890	4,472	1,694
370 Spirit Shop	1,575	-	1,575	-
400 Student Council	287	1,445	1,390	343
405 March Madness	327	140	232	235
410 NHS	1,884	7,368	8,196	1,056
420 SADD	140	660	652	148
430 HS Drama	1,400	457	974	882
435 MS Drama	822	780	809	792
450 Travel Club	801	-	801	-
460 FCA	295	213	136	372
470 FBLA	356	-	-	356
480 Yearbook	758	4,337	4,358	738
490 Academic Team	190	70	96	164
500 Class of 2021	1,707	2,173	2,397	1,484
501 Class of 2016	87	9,149	7,510	1,726
502 Class of 2017	360	-	146	213
503 Class of 2018	-	500	342	158
505 Class of 2020	510	-	510	-
600 Library	1,093	969	2,051	12
605 Library Store	1,505	-	1,454	51
900 Holding	-	7,402	6,642	760
902 Student Recognition	-	1,001	703	299
903 Box Tops for Education	401	215	196	420
904 Mise	83	95	100	78
905 Life Skills	303	62	178	187
908 ACT	98	900	935	63
911 Art Supplies	180	-	178	2
912 MS Football	-	846	592	254
913 MS Basketball	625	3,282	2,475	1,432
Total	\$ 76,111	\$ 214,978	\$ 223,226	\$ 67,863

LUDLOW INDEPENDENT SCHOOL DISTRICT

Statement of Receipts, Disbursements and Fund Balance
School Activity Fund
For the Year Ended June 30, 2015

	<u>Mary A. Goetz Elementary</u>	<u>Total</u>
Fund balances at July 1, 2014	\$ 23,269	\$ 23,269
Add: receipts	31,963	31,963
Less: disbursements	<u>(33,566)</u>	<u>(33,566)</u>
Fund balance at June 30, 2015	<u>\$ 21,666</u>	<u>\$ 21,666</u>

LUDLOW INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – KTRS

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of the net pension liability	0%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	*	*	*	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	25,919,015	*	*	*	*	*	*	*	*	*
Total	\$25,919,015	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 3,021,774	\$ 4,319,097	\$ 4,132,256	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	45.59%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: None

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

LUDLOW INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – KTRS

	Last 10 Fiscal Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 139,870	\$ 74,613	\$ 72,559	\$ 78,412	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(139,870)</u>	<u>(74,613)</u>	<u>(72,559)</u>	<u>(78,412)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution excess/(deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 4,303,489	\$ 3,021,774	\$ 4,319,097	\$ 4,132,256	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	3.25%	2.47%	1.68%	1.90%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – CERS

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of net pension liability	0.035182%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 1,141,000	*	*	*	*	*	*	*	*	*
Total net pension liability	\$ 3,244,377,000	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 700,766	\$ 828,178	\$ 845,139	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.8%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	66.80%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tired structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 years period.

LUDLOW INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – CERS

	Last 10 Fiscal Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 154,780	\$ 132,374	\$ 161,909	\$ 160,239	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	(154,780)	(132,374)	(161,909)	(160,239)	*	*	*	*	*	*
Contribution excess/(deficiency)	\$ -	\$ -	\$ -	\$ -	*	*	*	*	*	*
District's covered-employee payroll	\$ 875,953	\$ 700,766	\$ 828,178	\$ 845,139	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.55%	18.96%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agreement Number</u>	<u>Federal Expenditures for FYE 6/30/2015</u>
<u>U.S. Department of Education</u>			
<i>Passed through Kentucky Department of Education</i>			
Special Education Cluster			
Special Education_Grants to States	84.027	3810002 13	\$ 37
Special Education_Grants to States	84.027	3810002 14	41,507
Special Education_Grants to States	84.027	3810002 15	160,764
Special Education_Preschool Grants	84.173	3800002 14	3,136
Special Education_Preschool Grants	84.173	3800002 15	12,139
Total Special Education Cluster			217,583
Title I Grants to Local Educational Agencies	84.010	3100002 13	4,197
Title I Grants to Local Educational Agencies	84.010	3100002 14	18,993
Title I Grants to Local Educational Agencies	84.010	3100002 15	213,592
Total CFDA #84.010			236,782
Title II Improving Teacher Quality State Grants	84.367	3230002 15	40,096
Race to the Top	84.413	3960002 11	2,600
Twenty-First Century Community Learning Centers	84.287C	3400002 13	6,000
Twenty-First Century Community Learning Centers	84.287C	3400002 14	126,531
Total U.S. Department of Education			629,592
<u>U.S. Department of Agriculture</u>			
<i>Child Nutrition Cluster</i>			
<i>Passed through Kentucky Department of Education</i>			
Summer Food Service Program for Children	10.559	7740023 14	31,940
National School Lunch Program	10.555	7750002 15	321,628
School Breakfast Program	10.553	7760005 15	150,851
Child and Adult Food Program	10.558	7790021 15	61,958
<i>Passed through Kentucky Department of Agriculture</i>			
National School Lunch Program - Food Donation	10.555	059-0203	21,999
Total Child Nutrition Cluster			588,376
Total U.S. Department of Agriculture			588,376
Total Expenditures of Federal Awards			\$ 1,217,968

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Ludlow Independent School District under programs of the federal government for the year ended June 30, 2015, and is reported 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*. Because the schedule presents only a selected portion of the operations of Ludlow Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2015, the District reported food commodities expended in the amount of \$21,999.



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

To the Members of the Board of Education
Ludlow Independent School District
Florence, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ludlow Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Ludlow Independent 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 Ludlow Independent 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 Ludlow Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ludlow Independent 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 Ludlow Independent 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 other matters that we reported to management of the District in a separate letter dated November 13, 2015.

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

(Continued)

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.

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
November 13, 2015



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

Members of the Board of Education
Ludlow Independent School District
Florence, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Ludlow Independent 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 Ludlow Independent School District's major federal programs for the year ended June 30, 2015. Ludlow Independent 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 Ludlow Independent 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*. 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 Ludlow Independent 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 Ludlow Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Ludlow Independent 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.

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

(Continued)

Report on Internal Control Over Compliance

Management of Ludlow Independent 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 Ludlow Independent 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 Ludlow Independent 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.

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
November 13, 2015

LUDLOW INDEPENDENT SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None noted
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None noted

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major programs

Table with 2 columns: CFDA No., Name of Federal Program or Cluster. Row 1: 10.553/10.555/10.558/10.559, Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

LUDLOW INDEPENDENT SCHOOL DISTRICT

Summary Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
-------------------------	---------------------------	---------------

No matters are reportable.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2015**

In planning and performing our audit of the financial statements of Ludlow Independent School District for the year ended June 30, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 13, 2015 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 13, 2015, on the financial statements of the Ludlow Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable.

ACTIVITY FUNDS

Ludlow High School

2015-01: Range of receipt slips are not being documented

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should prepare deposit slips containing the issuer's name and the amount of each check or retain a copy of all checks to be deposited. Further, the deposit slip should note the receipt numbers in the deposit.

Condition – During the testing of the Activity Funds, it was noted that certain fee receipts are kept in their own separate receipt slip booklet and recorded in the activity fund receipt slip booklet as a total for the day without documenting the individual receipts.

Effect – Proper documentation of the receipt process was not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the school documents the range of receipt slips being deposited on the activity fund receipt slips. This will create a deposit trail and will allow for the school to trace the deposits to both the activity fund booklet and the bank statement.

Board Response – The School will develop a proper procedure for the proper staff to follow in order to insure that the school documents the range of receipt slips that are being deposited on the activity fund receipt slips.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2015**

CURRENT YEAR RECOMMENDATIONS (Continued)

Ludlow High School (Continued)

2015-02: A budget was not prepared for the school

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should prepare a budget for the school activity accounts similar to the school district.

Condition – During the testing of the Activity Funds, it was noted a budget was not prepared at the school activity level.

Effect – Proper documentation of the budget process was not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the school prepare a budget for the school activity accounts. The budget should be provided to the principal by April 15 and to the finance officer by May 15.

Board Response – The school will develop a proper procedure for timely preparation and submission of a budget.

Ludlow Elementary School

2015-03: A budget was not prepared for the school

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should prepare a budget for the school activity accounts similar to the school district.

Condition – During the testing of the Activity Funds, it was noted a budget was not prepared at the school activity level.

Effect – Proper documentation of the budget process was not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the school prepare a budget for the school activity accounts. The budget should be provided to the principal by April 15 and to the finance officer by May 15.

Board Response – The school will develop a proper procedure for timely preparation and submission of a budget.

LUDLOW INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2015**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable.

ACTIVITY FUNDS

Ludlow High School

2014-01: Range of receipt slips are not being documented

Current year follow-up: See management comment 2015-01 above.

Ludlow Elementary School

2014-02: Students are not signing the Multiple Receipt Form

Current year follow-up: Issue was addressed.