

**LYON COUNTY SCHOOL DISTRICT**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

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**LYON COUNTY SCHOOL DISTRICT  
JUNE 30, 2015**

**BOARD OF EDUCATION**

George Glass, Chairperson  
Denny Gray, Vice Chairperson  
Jim Bannister, Member  
Bradford Richie, Member

**ADMINISTRATIVE STAFF**

Russ Tilford, Superintendent  
Marla Holloman, Finance Officer

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



## INDEPENDENT AUDITORS' REPORT

Kentucky State Committee  
for School District Audits  
Members of the Board of Education  
Lyon County School District  
Eddyville, Kentucky

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County School District as of June 30, 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.

## **Change in Accounting Principle**

As discussed in Note 15 to the financial statements, in fiscal year 2015, the District adopted GASB 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB 50, *Pension Disclosures*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4–12, 53-56, and 57-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and combining individual school activity 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, combining and individual school activity 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

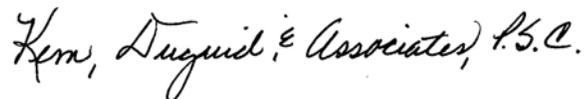
procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, combining and individual school activity fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lyon County School District's internal control over financial reporting and compliance.

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

A handwritten signature in cursive script that reads "Kem, Duguid & Associates, P.S.C.".

Certified Public Accountants  
Hopkinsville, Kentucky

November 6, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

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

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$2,310,158, as compared with the beginning cash balance of \$2,379,382. The ending cash balance consisted of General Fund of \$1,853,900, Special Revenue Fund of \$58,329, Construction Fund of \$314,300, Food Service Fund of (\$9,443), and School Activity Funds of \$93,072.
- Total government-wide net position decreased by \$1,267,041 (includes \$1,725,000 for GASB 68 adjustment) for the fiscal year ended June 30, 2015. Total long-term obligations had a net increase of \$1,137,949, while the unrestricted net position decreased \$1,550,505 and restricted net position decreased \$9,604.
- The General Fund had \$7,086,863 in revenues, which primarily consisted of the state program (SEEK) funds, property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues decreased in comparison to prior year revenues of \$7,460,001. There was a tax increase for the year with the rate being increased to \$.434 per \$100 valuation. Excluding interfund transfers, there were \$7,079,229 in General Fund expenditures. This compares to \$7,099,766 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,610,525 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance, technology, and debt service. A like amount of expenses is also recorded in the financial statements.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**Government-wide financial statements** – The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District’s assets and deferred outflows of resources and liabilities and deferred inflows. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position – the difference between the District’s assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District’s activities are reported as governmental activities.

- Governmental activities – All of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

The District has three kinds of funds:

- *Governmental funds* – Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – The District’s proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

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

**Other information** – In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information, as well as combining and individual fund statements and schedules beginning on page 62.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$4,020,598 as of June 30, 2015.

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

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

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2015 and 2014:

**Net Position for the Fiscal Years Ended June 30, 2015 and 2014**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets:						
Current assets and other assets	\$ 2,406,170	\$ 2,395,390	\$ 24,728	\$ 17,236	\$ 2,430,898	\$ 2,412,626
Capital assets	12,112,730	12,367,835	42,657	47,318	12,155,387	12,415,153
<b>Total assets</b>	<b>14,518,900</b>	<b>14,763,225</b>	<b>67,385</b>	<b>64,554</b>	<b>14,586,285</b>	<b>14,827,779</b>
Deferred outflows	185,975	-	28,282	-	214,257	-
Liabilities:						
Current liabilities	256,590	312,666	101	1,213	256,691	313,879
Noncurrent obligations	10,138,569	9,226,261	225,641	-	10,364,210	9,226,261
<b>Total liabilities</b>	<b>10,395,159</b>	<b>9,538,927</b>	<b>225,742</b>	<b>1,213</b>	<b>10,620,901</b>	<b>9,540,140</b>
Deferred Inflows	129,853	-	19,747	-	149,600	-
Net position:						
Investment in capital assets, net of related debt	3,861,084	3,563,355	42,657	47,318	3,903,741	3,610,673
Restricted	480,589	490,193	-	-	480,589	490,193
Unrestricted	(161,810)	1,170,750	(201,922)	16,023	(363,732)	1,186,773
<b>Total net position</b>	<b>\$ 4,179,863</b>	<b>\$ 5,224,298</b>	<b>\$ (159,265)</b>	<b>\$ 63,341</b>	<b>\$ 4,020,598</b>	<b>\$ 5,287,639</b>

**Change in net position.** The District’s governmental activities net position decreased \$1,044,435. The components of the net change are a current increase of \$452,865 and a prior period adjustment of \$1,497,300 for the implementation of GASB 68. The business-type activities net position decreased by \$222,606. The components of net change are a current year increase of \$5,094 and a prior period adjustment of \$227,700 for the implementation of GASB 68.

The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District, and the payments are recorded as revenue from the State. The result is an increase in net position from the direct payment of principal by the SFCC of \$53,758. Another increase is the expenditure of current revenues on capital assets, an expenditure that does not reduce net assets on the government-wide statements.

The District’s financial position is the product of many factors. For example, the determination of the District’s investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2015 and 2014:

**Changes in Net Position for the Fiscal Years Ended June 30, 2015 and 2014**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>						
Program revenues:						
Operating grants and contributions	\$ 2,377,272	\$ 2,168,120	\$ 274,951	\$ 266,015	\$ 2,652,223	\$ 2,434,135
Capital grants and contributions	81,232	384,674	-	-	81,232	384,674
Charges for services	-	-	114,899	110,019	114,899	110,019
General revenues:						
Property taxes	2,711,878	2,642,281	-	-	2,711,878	2,642,281
Other taxes	981,672	1,039,660	-	-	981,672	1,039,660
Investment earnings	1,425	2,045	4	23	1,429	2,068
State aid	1,923,396	2,420,978	38,593	43,000	1,961,989	2,463,978
Other	533,497	488,703	2,915	832	536,412	489,535
<b>Total revenues</b>	<u>8,610,372</u>	<u>9,146,461</u>	<u>431,362</u>	<u>419,889</u>	<u>9,041,734</u>	<u>9,566,350</u>
<b>Expenses:</b>						
Instruction	4,480,556	4,540,825	-	-	4,480,556	4,540,825
Student support services:	375,891	362,617	-	-	375,891	362,617
Instructional support	549,853	566,536	-	-	549,853	566,536
District administration	471,086	524,133	-	-	471,086	524,133
School administration	484,700	504,437	-	-	484,700	504,437
Business support	223,692	193,734	-	-	223,692	193,734
Plant operations	810,869	704,787	-	-	810,869	704,787
Student transportaion	575,020	632,441	-	-	575,020	632,441
Community services	84,400	67,836	-	-	84,400	67,836
Interest on long-term debt	91,836	296,946	-	-	91,836	296,946
Bond issuance costs	-	15,662	-	-	-	15,662
Other	9,604	3,590	-	-	9,604	3,590
Food service	-	-	426,268	458,048	426,268	458,048
<b>Total expenses</b>	<u>8,157,507</u>	<u>8,413,544</u>	<u>426,268</u>	<u>458,048</u>	<u>8,583,775</u>	<u>8,871,592</u>
<b>Increase (Decrease) in net position</b>	<u>\$ 452,865</u>	<u>\$ 732,917</u>	<u>\$ 5,094</u>	<u>\$ (38,159)</u>	<u>\$ 457,959</u>	<u>\$ 694,758</u>

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$2,244,577 an increase of \$67,312 in comparison with the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2015 and 2014.

The main sources of the General Fund’s revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District’s activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state and expenditures of those grants for specific programs in accordance with the grants’ guidelines.

The SEEK Capital Outlay Fund’s revenues are derived from state SEEK allowances based upon student enrollment. The FSPK Building Fund’s revenues are produced by a five-cent property tax equivalent. The use of both funds’ resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

The Debt Service Fund is used to account for all activities related to long-term bond obligations.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

Following is a summary of fund balances for the fiscal years ended June 30, 2015 and 2014:

**Governmental Funds Balances as of June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
<b>Governmental Funds</b>			
General Fund	\$ 1,930,277	\$ 1,853,361	\$ 76,916
Special Revenue Fund	-	-	-
Building Fund	-	-	-
Construction	314,300	323,904	(9,604)
Capital Outlay	-	-	-
Debt Service Fund	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total governmental funds</b>	<u>\$ 2,244,577</u>	<u>\$ 2,177,265</u>	<u>\$ 67,312</u>

**General Fund** – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$1,731,093, while total fund balance reached \$2,244,577. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 24.45% of total General Fund expenditures, while total fund balance represents 27.27% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$76,916. Revenues and transfers totaling \$7,175,297, decreased by \$459,287, while expenditures and transfers totaling \$7,098,381, decreased by \$14,228.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement/encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2.00% contingency. The District adopted a General Fund budget with a contingency of 7.84%. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

As noted on the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget did not include \$1,494,207 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers, beginning balances, and on-behalf payments, were \$5,592,656; compared to the total budgeted revenues of \$5,557,877.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers and on-behalf payments, were \$5,585,022; compared to the total budgeted expenditures of \$7,170,910.
- The fund balance at the end of the 2015 fiscal year for all Governmental Funds was \$2,244,577 compared to \$2,177,265 in the prior year.

Significant Board action that impacts the District’s finances includes the award of multiple contracts and salary increases mandated by the Legislature.

Fund 2 is made up of state, local, and federal grants. These grants include Title I, No Child Left Behind Funding, Preschool, Special Education funding, and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, and transportation.

Funds 310 and 320 are restricted funds for capital projects. The State contributes to Fund 310.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – At June 30, 2015, the District had \$12,155,387 invested in capital assets net of depreciation: historical costs totaled \$18,476,638 with accumulated depreciation totaling \$6,321,251. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. Expenditures for acquisitions and improvements during the year totaled \$25,879. Depreciation charged to expense during the year totaled \$285,645, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2015 and 2014.

**Net Capital Assets for the Fiscal Years Ended June 30, 2015 and 2014**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 223,109	\$ 223,109	\$ -	\$ -	\$ 223,109	\$ 223,109
Land improvements	1,576	2,597	-	-	1,576	2,597
Construction in progress	-	4,729,567	-	-	-	4,729,567
Building and improvements	11,495,632	6,919,258	24,972	26,158	11,520,604	6,945,416
Technology equipment	20,529	32,902	253	554	20,782	33,456
General equipment	6,842	91,868	-	-	6,842	91,868
Vehicles	365,042	368,534	-	-	365,042	368,534
Food service equipment	-	-	17,432	20,606	17,432	20,606
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total	<u>\$ 12,112,730</u>	<u>\$ 12,367,835</u>	<u>\$ 42,657</u>	<u>\$ 47,318</u>	<u>\$ 12,155,387</u>	<u>\$ 12,415,153</u>

**Long-Term Debt** – The District’s long-term general obligation bonds and KISTA leases outstanding at June 30, 2015 were \$8,649,687. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payment under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$912,404 of the bonds leaving the District to pay \$7,737,283. The liability for compensated absences decreased from \$97,877 in the prior year to \$88,864 for the year ending June 30, 2015.

The State must approve the issuance of any new bonds of the District.

More detailed information about the District’s long-term liabilities may be found in Note 4 to the financial statements.

**OUTLOOK FOR THE FUTURE**

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District’s major source of revenue is state aid, primarily Kentucky SEEK funding.

The District’s financial position is contingent upon legislation and factors related to property taxation in conjunction with decisions made by the District’s Board management. The District remains committed to utilizing resources to provide the maximum benefit to students and provide them with a quality education. This involves closely monitoring legislation and seeking new sources of revenues through grant writing, etc.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District’s finances, comply with finance-related laws and regulations, and demonstrate the District’s commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Superintendent or District finance personnel (270) 388-9715 ext. 405 or by mail at 217 Jenkins Road, Eddyville, KY 42038.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**LYON COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2015**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,226,529	\$ -	\$ 2,226,529
Accounts receivable:			
Taxes	78,644	-	78,644
Other	100,997	-	100,997
Inventory	-	24,728	24,728
Capital assets:			
Non-depreciable	223,109	-	223,109
Depreciable (net)	11,889,621	42,657	11,932,278
 Total assets	 14,518,900	 67,385	 14,586,285
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension amounts	185,975	28,282	214,257
 Total deferred outflows of resources	 185,975	 28,282	 214,257
<b>LIABILITIES</b>			
Cash overdraft	-	9,443	9,443
Accounts payable	5,635	101	5,736
Unearned revenue	155,958	-	155,958
Interest payable	94,997	-	94,997
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	591,214	-	591,214
Accrued compensated absences	19,960	-	19,960
Portion due or payable after one year:			
Bonds payable	7,974,732	-	7,974,732
Accrued compensated absences	68,904	-	68,904
Net pension liability	1,483,759	225,641	1,709,400
 Total liabilities	 10,395,159	 235,185	 10,620,901
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension amounts	129,853	19,747	149,600
 Total deferred inflows of resources	 129,853	 19,747	 149,600
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	3,861,084	42,657	3,903,741
Restricted for:			
Construction	480,589	-	480,589
Unrestricted	(161,810)	(201,922)	(363,732)
 Total net position	 \$ 4,179,863	 \$ (159,265)	 \$ 4,020,598

See accompanying notes to financial statements

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

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
<b>Governmental Activities:</b>					
<b>Current:</b>					
Instruction	\$ 4,480,556	\$ -	\$ 1,741,174	\$ -	\$ (2,739,382)
Support services:					
Student	375,891	-	110,654	-	(265,237)
Instructional staff	549,853	-	131,754	-	(418,099)
District administration	471,086	-	68,977	-	(402,109)
School administration	484,700	-	102,734	-	(381,966)
Business	223,692	-	43,062	-	(180,630)
Plant operation and maintenance	810,869	-	48,892	-	(761,977)
Student transportation	575,020	-	52,961	-	(522,059)
Community service activities	84,400	-	77,064	-	(7,336)
Other	9,604	-	-	-	(9,604)
Interest on long-term debt	91,836	-	-	81,232	(10,604)
<b>Total governmental activities</b>	<b>8,157,507</b>	<b>-</b>	<b>2,377,272</b>	<b>81,232</b>	<b>(5,699,003)</b>
<b>Business-Type Activities:</b>					
Food service	426,268	114,899	274,951	-	(36,418)
<b>Total business-type activities</b>	<b>426,268</b>	<b>114,899</b>	<b>274,951</b>	<b>-</b>	<b>(36,418)</b>
<b>Total activities</b>	<b>\$ 8,583,775</b>	<b>\$ 114,899</b>	<b>\$ 2,652,223</b>	<b>\$ 81,232</b>	<b>\$ (5,735,421)</b>
			<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Changes in Net Position</b>					
Net revenues (expenses)			\$ (5,699,003)	\$ (36,418)	\$ (5,735,421)
<b>General Revenues</b>					
Taxes:					
Property			2,711,878	-	2,711,878
Motor vehicle			452,779	-	452,779
Utilities			528,893	-	528,893
Investment earnings			1,425	4	1,429
State aid			1,923,396	38,593	1,961,989
Gain (loss) on sale of fixed assets			132	-	132
Miscellaneous			533,365	2,915	536,280
<b>Total general revenues</b>			<b>6,151,868</b>	<b>41,512</b>	<b>6,193,380</b>
<b>Change in net position</b>			452,865	5,094	457,959
<b>Net position, July 1, 2014</b>			5,224,298	63,341	5,287,639
Implementation of GASB 68 (Note 15)			(1,497,300)	(227,700)	(1,725,000)
<b>Net position, July 1, 2014, restated</b>			<b>3,726,998</b>	<b>(164,359)</b>	<b>3,562,639</b>
<b>Net position, June 30, 2015</b>			<b>\$ 4,179,863</b>	<b>\$ (159,265)</b>	<b>\$ 4,020,598</b>

See accompanying notes to financial statements

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**LYON COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,853,900	\$ 58,329	\$ 314,300	\$ -	\$ 2,226,529
Accounts receivable:					
Taxes	78,644	-	-	-	78,644
Other	-	100,997	-	-	100,997
Intergovernmental - indirect federal	-	-	-	-	-
<b>Total assets</b>	<b>\$ 1,932,544</b>	<b>\$ 159,326</b>	<b>\$ 314,300</b>	<b>\$ -</b>	<b>\$ 2,406,170</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 2,267	\$ 3,368	\$ -	\$ -	\$ 5,635
Unearned revenue	-	155,958	-	-	155,958
<b>Total liabilities</b>	<b>2,267</b>	<b>159,326</b>	<b>-</b>	<b>-</b>	<b>161,593</b>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	166,289	-	314,300	-	480,589
Committed	23,606	-	-	-	23,606
Assigned	9,289	-	-	-	9,289
Unassigned	1,731,093	-	-	-	1,731,093
<b>Total fund balances</b>	<b>1,930,277</b>	<b>-</b>	<b>314,300</b>	<b>-</b>	<b>2,244,577</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,932,544</b>	<b>\$ 159,326</b>	<b>\$ 314,300</b>	<b>\$ -</b>	<b>\$ 2,406,170</b>

See accompanying notes to financial statements

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

Total fund balance per fund financial statements		\$ 2,244,577
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$18,252,878, and the accumulated depreciation is \$6,140,148.		
		12,112,730
Pension related items:		
Deferred outflow		185,975
Deferred inflow		(129,853)
Unfunded pension liability		(1,483,759)
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Bond obligations	(8,361,259)	
KISTA lease obligations	(204,687)	
Interest payable on bonds	(94,997)	
Noncurrent portion of accumulated sick leave	<u>(88,864)</u>	<u>(8,749,807)</u>
Net position for governmental activities		<u>\$ 4,179,863</u>

See accompanying notes to financial statements

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
From local sources:					
Taxes					
Property	\$ 2,349,351	\$ -	\$ -	\$ 362,527	\$ 2,711,878
Motor vehicle	450,029	-	-	2,750	452,779
Utilities	528,893	-	-	-	528,893
Earnings on investments	1,410	15	-	-	1,425
Other local revenues	464,201	69,164	-	-	533,365
Intergovernmental - state	3,265,041	403,465	-	161,032	3,829,538
Intergovernmental - federal	27,938	524,422	-	-	552,360
<b>Total revenues</b>	<u>7,086,863</u>	<u>997,066</u>	<u>-</u>	<u>526,309</u>	<u>8,610,238</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Instruction	3,733,727	814,319	-	-	4,548,046
Support services:					
Student	329,648	46,233	-	-	375,881
Instructional staff	500,675	47,866	-	-	548,541
District administration	467,501	-	-	-	467,501
School administration	483,984	-	-	-	483,984
Business	200,213	23,400	-	-	223,613
Plant operations and maintenance	756,602	-	-	-	756,602
Student transportation	495,321	-	-	-	495,321
Community service activities	-	84,400	-	-	84,400
Building acquisition and construction	-	-	9,604	-	9,604
Debt service	111,558	-	-	438,007	549,565
<b>Total expenditures</b>	<u>7,079,229</u>	<u>1,016,218</u>	<u>9,604</u>	<u>438,007</u>	<u>8,543,058</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>7,634</u>	<u>(19,152)</u>	<u>(9,604)</u>	<u>88,302</u>	<u>67,180</u>
<b>Other financing sources (uses)</b>					
Proceeds from disposal of fixed assets	132	-	-	-	132
Operating transfers in	88,302	105,044	-	356,775	550,121
Operating transfers out	(19,152)	(85,892)	-	(445,077)	(550,121)
<b>Total other financing sources (uses)</b>	<u>69,282</u>	<u>19,152</u>	<u>-</u>	<u>(88,302)</u>	<u>132</u>
<b>Net changes in fund balances</b>	76,916	-	(9,604)	-	67,312
<b>Fund balances, July 1, 2014</b>	<u>1,853,361</u>	<u>-</u>	<u>323,904</u>	<u>-</u>	<u>2,177,265</u>
<b>Fund balances, June 30, 2015</b>	<u>\$ 1,930,277</u>	<u>\$ -</u>	<u>\$ 314,300</u>	<u>\$ -</u>	<u>\$ 2,244,577</u>

See accompanying notes to financial statements

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

Net change in fund balance - Total governmental funds \$ 67,312

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlay in the current period:

Capital outlay	25,879	
Depreciation expense	(280,984)	
Net capital outlay		(255,105)

Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the government funds financial statements but is a reduction of the liability in the statement of net position.

Bond repayments	465,000	
KISTA lease payments	104,253	
		569,253

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:

Deferred pension amounts	69,663	
Discount on bond issuance	(6,815)	
Accumulated sick leave-noncurrent portion	9,013	
Accrued interest on bonds	(456)	
Net decrease in expenditures		71,405

Change in net position of governmental activities \$ 452,865

See accompanying notes to financial statements

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**LYON COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015**

	School Food Service Fund
<b>ASSETS</b>	
Current assets	
Inventory	\$ 24,728
Total current assets	24,728
Noncurrent assets	
Capital assets	223,759
Less: accumulated depreciation	(181,102)
Total noncurrent assets	42,657
Total assets	67,385
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension amounts	28,282
<b>LIABILITIES</b>	
Current liabilities	
Cash overdraft	9,443
Accounts payable	101
Total current liabilities	9,544
Long-term liabilities	
Net pension liability	225,641
Total long-term liabilities	225,641
Total liabilities	235,185
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension amounts	19,747
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	42,657
Unrestricted	(201,922)
Total net position	\$ (159,265)

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
<b>OPERATING REVENUES</b>	
Lunchroom sales	\$ 114,899
Other revenue	<u>2,915</u>
<b>Total operating revenues</b>	<u>117,814</u>
 <b>OPERATING EXPENSES</b>	
Salaries and wages	227,175
Materials and supplies	184,405
Depreciation	4,661
Contract services	9,716
Miscellaneous	<u>311</u>
<b>Total operating expenses</b>	<u>426,268</u>
<b>Operating income (loss)</b>	<u>(308,454)</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Federal grants	255,741
Donated commodities	19,210
State grants	3,506
State on-behalf payments	35,087
Interest income	<u>4</u>
<b>Total non-operating revenues (expenses)</b>	<u>313,548</u>
<b>Change in net position</b>	<u>5,094</u>
<b>Net position, July 1, 2014</b>	63,341
Implementation of GASB 68 (Note 15)	<u>(227,700)</u>
<b>Net position, July 1, 2014, restated</b>	<u>(164,359)</u>
<b>Net position, June 30, 2015</b>	<u><u>\$ (159,265)</u></u>

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from:	
Lunchroom sales	\$ 139,121
Other activities	2,915
Cash paid to/for:	
Employees	(202,682)
Supplies	(175,623)
Contract services	(9,716)
Miscellaneous	(311)
	<u>(246,296)</u>
<b>Net cash provided (used) by operating activities</b>	
<b>Cash flows from noncapital financing activities</b>	
Transfers in (out)	-
Government grants	259,247
	<u>259,247</u>
<b>Net cash provided (used) by noncapital financing activities</b>	
<b>Cash flows from investing activities</b>	
Receipt of interest income	4
	<u>4</u>
<b>Net cash provided (used) by investing activities</b>	
Net increase (decrease) in cash and cash equivalents	12,955
Balances, beginning of year	<u>(22,398)</u>
Balances, end of year	<u><u>\$ (9,443)</u></u>

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ (308,454)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities</b>	
Depreciation	4,661
Donated commodities	19,210
State on-behalf payments	35,087
Change in assets and liabilities:	
Accounts receivable	24,222
Inventory	(9,316)
Deferred pension amounts	(10,594)
Accounts payable	<u>(1,112)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ (246,296)</u></b>
<b>Schedule of non-cash transactions:</b>	
Donated commodities received from Federal government	\$ 19,210
On-behalf payments	35,087

See accompanying notes to financial statements

**FIDUCIARY FUNDS FINANCIAL STATEMENTS**

**LYON COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 93,072</u>
Total assets	<u>93,072</u>
 <b>LIABILITIES</b>	
Due to student groups	<u>93,072</u>
Total liabilities	<u>93,072</u>
 <b>NET POSITION</b>	<u><u>\$ -</u></u>

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Lyon County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Lyon County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity". 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 District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as band boosters, parent-teacher associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. In 1990, the Board authorized the establishment of the Lyon County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act, KRS 273, and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Lyon County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. Interfund activity is eliminated to avoid "doubling up" revenues and expenses.

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The governmental funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Net Position for the Proprietary Fund reports increases and decreases in total economic net worth.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

**Governmental Funds**

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's Governmental Funds:

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

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.

The *Special Revenue (Grant) Fund* 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. This is a major fund of the District.

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

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

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

The *Construction Fund* accounts for proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest and related costs.

**Proprietary Funds**

Proprietary funds are used to account for ongoing organizations and activities which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The funds' principal operating revenues are food service charges and daycare fees. Operating expenses include salaries, benefits, supplies and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one proprietary fund:

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

*Agency Funds* account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education *Uniform Program of Accounting for School Activity Funds*. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

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

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. “Available” means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means expected to be received within 60 days after year-end.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are 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 to be used or the fiscal year when use is first permitted, matching requirements in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

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.

Donated Commodities

The fair value of donated commodities received during the year is reported in the proprietary fund statement of revenues, expenses and changes in net position as an expense and as a donated commodities revenue (nonoperating revenue).

Expenses/Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Property taxes

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

The property tax rates for the year ended June 30, 2015, to finance the General Fund operations were \$.434 per \$100 valuation for real property, \$.434 per \$100 valuation for business tangible personal property, and \$.436 per \$100 valuation for motor vehicles.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

Estimates

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

Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2015. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities and Equity

**Cash and Cash Equivalents**

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

**Prepaid Expenditures**

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Inventories**

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the General Fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

**Restricted Assets**

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420(3).

**Interfund Balances**

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

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. The District maintains a capitalization threshold of \$5,000 with the exception of real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not. Improvements are depreciated over the remaining useful lives of the related capital assets.

All reported capital assets except land and construction in progress 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 fund capital assets and proprietary fund assets:

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

<u>Description</u>	<u>Estimated Lives for Depreciation</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	5-10 years

**Accrued Liabilities and Long-Term Obligations**

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

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

**Accrued Liabilities and Long-Term Obligations**

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

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Debt Premium and Discounts

Unamortized premiums and discounts associated with bond issues are amortized over the lives of the related bonds using the straight-line method and are an addition (premium) or deduction (discount) to the debt balances in the government-wide statements.

Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

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 Teacher's 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category: the deferred outflows of resources relate to the net pension liability described in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category: the deferred inflows of resources relate to the net pension liability as described in Note 10.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Fund Balances

In the fund financial statements, governmental fund balances as classified as follows:

Non-spendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by the Board of Education’s formal action through a resolution.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or Management. The board adopted a resolution establishing the authority to assign funds.

Unassigned – All amounts not included in other spendable classifications.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District’s policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed, assigned, and then unassigned fund balances.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Subsequent Events

Subsequent events have been evaluated through November 6, 2015, which is the date the financial statements were available to be issued.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year end, the carrying amounts of the District's deposits were \$2,310,158 and the bank balances were \$2,870,973. Of the District's bank balance, \$250,000 was covered by Federal Deposit Insurance with the remaining balance of \$2,370,973 covered by collateral agreements with securities.

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

Governmental funds	\$ 2,226,529
Proprietary funds	(9,443)
Fiduciary funds	<u>93,072</u>
Total	<u><u>\$ 2,310,158</u></u>

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 – CAPITAL ASSETS**

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

<b>Governmental Activities</b>	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>
Capital assets not depreciated:				
Land	\$ 223,109	\$ -	\$ -	\$ 223,109
Construction in progress	4,729,567	-	4,729,567	-
Total nondepreciable historical cost	<u>4,952,676</u>	<u>-</u>	<u>4,729,567</u>	<u>223,109</u>
Capital assets depreciated:				
Land improvements	724,533	-	-	724,533
Buildings and improvements	10,506,845	4,737,069	-	15,243,914
Technology equipment	384,465	-	-	384,465
General equipment	350,778	-	-	350,778
Vehicles	1,307,702	18,377	-	1,326,079
Total depreciable historical cost	<u>13,274,323</u>	<u>4,755,446</u>	<u>-</u>	<u>18,029,769</u>
Less: accumulated depreciation				
Land improvements	721,936	1,021	-	722,957
Building and improvements	3,587,587	160,695	-	3,748,282
Technology equipment	351,563	12,373	-	363,936
General equipment	258,910	85,026	-	343,936
Vehicles	939,168	21,869	-	961,037
Total accumulated depreciation	<u>5,859,164</u>	<u>280,984</u>	<u>-</u>	<u>6,140,148</u>
Total depreciable historical cost - net	<u>7,415,159</u>	<u>4,474,462</u>	<u>-</u>	<u>11,889,621</u>
Governmental activities capital assets - net	<u>\$ 12,367,835</u>	<u>\$ 4,474,462</u>	<u>\$ 4,729,567</u>	<u>\$ 12,112,730</u>

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 – CAPITAL ASSETS, continued**

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

**Governmental Activities**

Instruction	\$ 115,439
Support services:	
Student	10
Instructional staff	1,312
District administration	3,585
School administration	716
Business	79
Plant operation and maintenance	80,144
Student transportation	79,699
Community service	-
	<u>                    </u>
	<u><u>\$ 280,984</u></u>

	<b>Balance</b>			<b>Balance</b>
<b>Business-Type Activities</b>	<b>July 1, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2015</b>
Capital assets depreciated:				
Buildings and improvements	\$ 59,229	\$ -	\$ -	\$ 59,229
Technology equipment	3,163	-	-	3,163
Food service equipment	161,368	-	-	161,368
	<u>223,760</u>	<u>-</u>	<u>-</u>	<u>223,760</u>
Total depreciable historical cost				
Less: accumulated depreciation				
Buildings and improvements	33,072	1,185	-	34,257
Technology equipment	2,608	302	-	2,910
Food service equipment	140,762	3,174	-	143,936
	<u>176,442</u>	<u>4,661</u>	<u>-</u>	<u>181,103</u>
Total accumulated depreciation				
Business-type activities capital assets - net	<u><u>\$ 47,318</u></u>	<u><u>\$ (4,661)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,657</u></u>

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 4 – LONG-TERM OBLIGATIONS**

The District issues bonds to provide funds for the acquisition and construction of major capital facilities and improvements. The original amount of the issue, the dates and interest rates are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>	<u>Balance June 30, 2015</u>
2002	\$ 3,900,000	1.60%-4.40%	\$ 2,720,000
2010	275,000	3.00%-3.50%	225,000
2012	5,080,000	.65%-3.30%	4,870,000
KISTA 2012	84,336	2.00%-2.625%	57,693
KISTA 2013	87,861	2.00%	68,444
2013	685,000	1.70% -4.00%	630,000
KISTA 2014	88,084	2.00%-3.00%	78,550

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund), is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lyon County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The KISTA project bonds provided funds for construction projects of the District. The District leases and rents the projects from KISTA on an annual basis. The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to maintain the projects in good repair over the life of the lease terms.

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

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 4 – LONG-TERM OBLIGATIONS, continued**

Year	Lyon County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 520,114	\$ 231,419	\$ 44,886	\$ 26,421	\$ 822,840
2017	539,136	215,511	45,864	25,443	825,954
2018	558,137	198,651	46,863	24,445	828,096
2019	577,107	180,794	47,893	23,413	829,207
2020	595,965	161,896	49,035	22,271	829,167
2021-2025	2,475,669	521,462	264,331	92,200	3,353,662
2026-2030	1,518,722	264,786	306,278	50,253	2,140,039
2031-2033	747,746	42,976	107,254	6,187	904,163
	<u>\$ 7,532,596</u>	<u>\$ 1,817,495</u>	<u>\$ 912,404</u>	<u>\$ 270,633</u>	<u>\$ 10,533,128</u>

Changes in the long-term obligation accounts during the year are summarized below:

	Balance July 1, 2014	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2015	Amounts Due within One Year
Bonds payable:					
Revenue bonds	\$ 8,910,000	\$ -	\$ 465,000	\$ 8,445,000	\$ 565,000
Less premium (discount)	(90,556)	-	(6,815)	(83,741)	-
Total bonds payable	<u>8,819,444</u>	<u>-</u>	<u>458,185</u>	<u>8,361,259</u>	<u>565,000</u>
Other liabilities:					
Capital leases	308,940	-	104,253	204,687	26,214
Compensated absences Governmental	<u>97,877</u>	<u>-</u>	<u>9,013</u>	<u>88,864</u>	<u>19,960</u>
Total other liabilities	<u>406,817</u>	<u>-</u>	<u>113,266</u>	<u>293,551</u>	<u>46,174</u>
Totals	<u>\$ 9,226,261</u>	<u>\$ -</u>	<u>\$ 571,451</u>	<u>\$ 8,654,810</u>	<u>\$ 611,174</u>

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 4 – LONG-TERM OBLIGATIONS, continued**

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The compensated absences and lease obligations will be liquidated by the General Fund. In the past, these liabilities have been paid each year by the General Fund.

**NOTE 5 – COMPENSATED ABSENCES**

Upon retirement from the school system, employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. For governmental fund financial statements, the current portion of unpaid accrued sick leave and personal leave is the amount expected to be funded with current year's economic financial resources. These amounts are recorded in the account "accrued sick leave payable" in the General Fund. The amount estimated for expenditure for school year 2016 is \$19,960. Management has estimated that the long-term obligation will be approximately \$88,864.

**NOTE 6 – FUND BALANCE REPORTING**

Following is a summary of designations of Fund Balance at June 30, 2015:

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:					
Future construction	166,289	-	-	-	166,289
Capital outlay	-	-	314,300	-	314,300
Committed:					
Sick leave	11,848	-	-	-	11,848
Buses	11,758	-	-	-	11,758
Assigned					
Site-based carryforward	9,289	-	-	-	9,289
Unassigned	1,731,093	-	-	-	1,731,093
	<u>\$ 1,930,277</u>	<u>\$ -</u>	<u>\$ 314,300</u>	<u>\$ -</u>	<u>\$ 2,244,577</u>

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 7 – TRANSFER OF FUNDS**

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	\$ 19,152
Capital Outlay	General	Capital funds request	79,800
Special Revenue	Special Revenue	Interfund project transfer	85,892
Building	Debt Service	Bond payments	356,775
Building	General	Capital funds request	<u>8,502</u>
			<u>\$ 550,121</u>

**NOTE 8 – DEFICIT OPERATING FUND BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following fund had a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

Construction Fund	\$	9,604
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**NOTE 9 – ON-BEHALF PAYMENTS**

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2015:

Health insurance	\$ 906,601
Life insurance	1,636
Administrative fee	11,164
Health reimbursement account - HRS/dental/vision	<u>38,762</u>
	958,163
Federal reimbursements of health benefits	<u>(36,325)</u>
	921,838
Kentucky Teacher's Retirement System	562,630
Technology	44,825
Debt Service	<u>81,232</u>
	<u>\$ 1,610,525</u>

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 9 – ON-BEHALF PAYMENTS, continued**

Governmental activities:	
General Fund	\$ 1,494,207
Debt Service Fund	81,232
Business-type activities:	
Food Service Fund	35,086
	\$ 1,610,525

**NOTE 10 – PENSION PLANS**

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

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

*Plan description* – Employees whose positions do not require a college degree beyond a high school diploma are covered by 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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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

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

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

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

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

Employees who 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 2.0% of their final average salary for each year of service if, upon retirement, their total service was less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

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

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

**Medical Insurance Plan**

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

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, three quarters percent (.75%) from Commonwealth appropriation, and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**Pension Liabilities, Pension Expense, and Deferred Outflows or 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 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	\$	1,709,400
Commonwealth's proportionate share of the KTRS net pension liability associated with the District.		23,875,389
		\$ 25,584,789

The net pension liability of the 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 .051539%.

For the year ended June 30, 2015, the District recognized pension expense of (\$80,257) related to CERS and \$562,630 related to KTRS. The District also recognized revenue of \$562,630 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:

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Defferences between expected and actual experence	\$ -	\$ -
Change of assumptions		
Net differences between projected and actual earnings on pension plan investments	-	187,000
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	223,355	-
<b>Total</b>	<b>\$ 223,355</b>	<b>\$ 187,000</b>

The amount of \$214,257 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:

Year ended June 30:		
2016	\$	37,400
2017		37,400
2018		37,400
2019		37,400
2020		-

*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:

	CERS	KTRS
Inflation	3.5%	3.5%
Projected salary increases	4.5%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.8%	7.5%

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

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 by then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer

timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S equity	45.00%	6.4%
Non U.S. equity	17.00%	6.5%
Fixed income	24.00%	1.6%
High yield bonds	4.00%	3.1%
Real estate	4.00%	5.8%
Alternatives	4.00%	6.8%
Cash	2.00%	1.5%
 Total	 <u>100.00%</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 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 two separate benefit payments streams was used to determine the total pension liability.

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

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 10 – PENSION PLANS, continued**

	<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	\$ 2,200,397	1,709,400	\$ 1,205,373
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 CERS and KTRS.

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

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

**NOTE 12 – RISK MANAGEMENT**

The District is exposed to various risks of loss of assets associated with the risks related to torts; theft of, damage to, and destruction of assets; fire, personal liability, vehicular accidents; errors and omissions; injuries to employees; fiduciary responsibility; and natural disaster. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers’ compensation insurance.

In prior years, to obtain insurance for workers’ compensation, errors and omissions, and general liability coverage, the District participated in the Kentucky School Boards Insurance Trust Liability Fund (KSBIT). 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 paid an annual premium to each fund for coverage.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 12 – RISK MANAGEMENT, continued**

Contributions to the Workers' Compensation Fund were based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

KSBIT is under a corrective action plan with the Kentucky Department of Insurance (DOI) due to a deficit in net worth. On May 13, 2014, an assessment plan for KSBIT members was approved by the Court which provides a payment for the KSBIT members. The approved assessment plan contained component which are subject to ongoing litigation. The payment plan from the assessment began subsequent to June 30, 2014. The District was notified by the Kentucky School Board Insurance Trust of a liability in the amount of \$43,649 for workers compensation losses incurred by the Trust. The District made a 25% down payment in the amount of \$10,912 in August 2014. The District chose to pay the remaining liability of \$37,737 in six installments beginning August 31, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020.

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

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial statements

**NOTE 13 – COBRA**

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

The District has notified all terminated employees of available continuing insurance coverage as mandated by COBRA.

**NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2015.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES**

Effective July 1, 2014, the District was required to adopt Government 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. Refer to the Defined Benefit section of Note 10 for further details.

As a result of implementing this statement, the following line items have been added to the Statement of Net Position.

<u>Item</u>	<u>Government - Wide</u>	<u>School Food Service</u>	<u>Total</u>
<u>June 30, 2015</u>			
Deferred outflows - pension plan	\$ 185,975	\$ 28,282	\$ 214,257
Deferred inflows - pension plan	129,853	19,747	149,600
Net pension liability	1,483,759	225,641	1,709,400
<u>June 30, 2014</u>			
Deferred outflows - pension plan	\$ 193,872	\$ 29,483	\$ 223,355
Deferred inflows - pension plan	162,316	24,684	187,000
Net pension liability	1,497,300	227,700	1,725,000

As this statement is applied retroactively, the financial statements for the year ended June 20, 2014 has been restated to apply the changes noted with the net pension liability.

The effect of these change is as follows:

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES, continued**

	<u>Government - Wide</u>	<u>School Food Service</u>	<u>Total</u>
Net position - June 30, 2014 as originally reported	\$ 5,224,298	\$ 63,341	\$ 5,287,639
GASB 68 adjustment to record net pension liability as of June 30, 2014	<u>(1,497,300)</u>	<u>(227,700)</u>	<u>(1,725,000)</u>
Net position - June 30, 2014, restated	<u>\$ 3,726,998</u>	<u>\$ (164,359)</u>	<u>\$ 3,562,639</u>
Change in net position - June 30, 2015 as originally reported	\$ 383,202	\$ (5,500)	\$ 377,702
GASB 68 adjustment to record net pension expense for the year ended June 30, 2015 (recorded in employee benefits)	<u>69,663</u>	<u>10,594</u>	<u>80,257</u>
Change - June 30, 2015, restated	<u>\$ 452,865</u>	<u>\$ 5,094</u>	<u>\$ 457,959</u>

**NOTE 16 – UPCOMING PRONOUNCEMENTS**

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the District will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The District is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 17 – ANNUAL FINANCIAL REPORT DIFFERENCES**

The proprietary fund financial statements reflect the implementation of GASB 68 (see Note 15). The District has not recorded the implementation entries on their Audited Annual Financial Report (AFR) submitted to Kentucky Department of Education.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 2,270,000	\$ 2,270,000	\$ 2,349,351	\$ 79,351
Motor vehicle	360,000	360,000	450,029	90,029
Utilities	480,000	480,000	528,893	48,893
Other	440,000	440,000	459,778	19,778
Earnings on investments	2,000	2,000	1,410	(590)
Other local revenues	20,000	20,000	4,423	(15,577)
Intergovernmental - state	1,965,877	1,965,877	1,770,834	(195,043)
Intergovernmental - federal	20,000	20,000	27,938	7,938
<b>Total revenues</b>	<u>5,557,877</u>	<u>5,557,877</u>	<u>5,592,656</u>	<u>34,779</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	3,036,306	3,036,306	2,736,091	300,215
Support services:				
Student	350,025	350,025	261,208	88,817
Instructional staff	455,726	455,726	412,628	43,098
District administration	1,254,466	1,299,418	353,699	945,719
School administration	411,743	412,155	381,250	30,905
Business	149,680	149,680	178,517	(28,837)
Plant operation and maintenance	738,170	738,170	707,711	30,459
Student transportation	713,872	602,872	442,360	160,512
Facilities acquisition and construction	15,000	15,000	-	15,000
Debt service	45,922	111,558	111,558	-
<b>Total expenditures</b>	<u>7,170,910</u>	<u>7,170,910</u>	<u>5,585,022</u>	<u>1,585,888</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>(1,613,033)</u>	<u>(1,613,033)</u>	<u>7,634</u>	<u>1,620,667</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of fixed assets	500	500	132	(368)
Operating transfers in	-	-	88,302	88,302
Operating transfers out	(12,703)	(12,703)	(19,152)	(6,449)
<b>Total other financing sources (uses)</b>	<u>(12,203)</u>	<u>(12,203)</u>	<u>69,282</u>	<u>81,485</u>
<b>Net change in fund balance</b>	<u>(1,625,236)</u>	<u>(1,625,236)</u>	<u>76,916</u>	<u>1,702,152</u>
<b>Fund balance, July 1, 2014</b>	<u>1,625,236</u>	<u>1,625,236</u>	<u>1,853,361</u>	<u>228,125</u>
<b>Fund balance, June 30, 2015</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930,277</u>	<u>\$ 1,930,277</u>

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

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 15	\$ 15
Other local revenues	-	-	69,164	69,164
Intergovernmental - state	423,426	410,783	403,465	(7,318)
Intergovernmental - federal	491,327	497,294	524,422	27,128
<b>Total revenues</b>	914,753	908,077	997,066	88,989
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	792,270	800,537	814,319	(13,782)
Support services:				
Student	-	4,016	46,233	(42,217)
Instructional staff	41,111	40,427	47,866	(7,439)
Business	20,000	20,000	23,400	(3,400)
Community services	74,075	60,679	84,400	(23,721)
<b>Total expenditures</b>	927,456	925,659	1,016,218	(90,559)
<b>Excess (deficit) of revenues over (under) expenditures</b>	(12,703)	(17,582)	(19,152)	(1,570)
<b>Other financing sources (uses)</b>				
Operating transfers out	(43,498)	(43,498)	(85,892)	(42,394)
Operating transfers in	56,201	61,080	105,044	43,964
<b>Total other financing sources (uses)</b>	12,703	17,582	19,152	1,570
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance, July 1, 2014</b>	-	-	-	-
<b>Fund balance, June 30, 2015</b>	\$ -	\$ -	\$ -	\$ -

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

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	-	-	-
Intergovernmental - state	-	-	-	-
Intergovernmental - federal	-	-	-	-
<b>Total revenues</b>	-	-	-	-
<b>EXPENDITURES</b>				
<b>Current:</b>				
Building acquisition and construction	-	-	9,604	(9,604)
Bond issuance costs	-	-	-	-
<b>Total expenditures</b>	-	-	9,604	(9,604)
<b>Excess (deficit) of revenues over (under) expenditures</b>	-	-	(9,604)	(9,604)
<b>Other financing sources (uses)</b>				
Bond principal proceeds	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Net change in fund balance</b>	-	-	(9,604)	(9,604)
<b>Fund balance, July 1, 2014</b>	-	-	323,904	323,904
<b>Fund balance, June 30, 2015</b>	\$ -	\$ -	\$ 314,300	\$ 314,300

**LYON COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015**

**NOTE 1 – BUDGETARY INFORMATION**

The District's budgetary process accounts for transactions on a basis other than GAAP. Differences between the budgetary accounting methods and GAAP are not material.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General and Food Service Funds in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

**Reconciliation to the General Fund**

Revenues - budgetary basis	\$ 5,592,656
On-behalf payments	<u>1,494,207</u>
Total revenues - modified cash basis	<u>\$ 7,086,863</u>
Expenditures - budgetary basis	\$ 5,585,022
On-behalf payments	<u>1,494,207</u>
Total expenditures - modified cash basis	<u>\$ 7,079,229</u>

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$90,559.

The Construction Fund had excess current year expenditures over current year appropriations totaling \$9,604.

**LYON COUNTY SCHOOL DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
County Employees Retirement System**

	<u>Year Ended June 30, 2015</u>
District's proportion of the net pension liability	0.051539%
District's proportionate share of the net pension liability	\$ 1,709,400
State's proportionate share of the net pension liability associated with the District	<u>-</u>
Total	<u>\$ 1,709,400</u>
District's covered-employee payroll	\$ 1,240,576
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.57%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**LYON COUNTY SCHOOL DISTRICT  
SCHEDULE OF REQUIRED CONTRIBUTIONS  
County Employees Retirement System**

	Year Ended June 30, 2015
Contractually required contribution	\$ 214,257
Contributions in relation to the contractually required contribution	214,257
Contribution deficiency	\$ -
District's covered-employee payroll	\$ 1,240,576
Contributions as a percentage of covered-employee payroll	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**LYON COUNTY SCHOOL DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
Kentucky Teachers' Retirement System**

	<u>Year Ended June 30, 2015</u>
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	<u>23,875,389</u>
Total	<u>\$ 23,875,389</u>
District's covered-employee payroll	\$ 3,622,135
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	15.17%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**LYON COUNTY SCHOOL DISTRICT  
SCHEDULE OF REQUIRED CONTRIBUTIONS  
Kentucky Teachers' Retirement System**

	Year Ended June 30, 2015
Contractually required contribution - On behalf payments - KDE	\$ 906,601
Contributions in relation to the contractually required contribution	450,140
Contribution deficiency	\$ 456,461
District's covered-employee payroll	\$ 3,622,135
Contributions as a percentage of covered-employee payroll	12.43%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**LYON COUNTY SCHOOL DISTRICT  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLANS  
FOR THE YEAR ENDED JUNE 30, 2015**

Changes of benefit terms – None.

Changes of assumptions – None.

**OTHER SUPPLEMENTARY INFORMATION**

**LYON COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015**

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

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

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 362,527	\$ -	\$ -	\$ 362,527
Motor vehicle	2,750	-	-	2,750
Intergovernmental - state	-	79,800	81,232	161,032
<b>Total revenues</b>	<u>365,277</u>	<u>79,800</u>	<u>81,232</u>	<u>526,309</u>
<b>EXPENDITURES</b>				
Debt service	-	-	438,007	438,007
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>438,007</u>	<u>438,007</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>365,277</u>	<u>79,800</u>	<u>(356,775)</u>	<u>88,302</u>
<b>Other financing sources (uses)</b>				
Operating transfers in	-	-	356,775	356,775
Operating transfers out	(365,277)	(79,800)	-	(445,077)
<b>Total other financing     sources (uses)</b>	<u>(365,277)</u>	<u>(79,800)</u>	<u>356,775</u>	<u>(88,302)</u>
<b>Net change in fund balances:</b>	-	-	-	-
<b>Fund balances, July 1, 2014</b>	-	-	-	-
<b>Fund balances, June 30, 2015</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**LYON COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS  
 ALL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2015
Lyon County High School	\$ 33,959	\$ 166,507	\$ 167,775	\$ 32,691	\$ -	\$ -	\$ 32,691
Lyon County Middle School	32,159	45,815	42,744	35,230	-	-	35,230
Lyon County Elementary School	31,416	45,298	51,563	25,151	-	-	25,151
Totals	<u>\$ 97,534</u>	<u>\$ 257,620</u>	<u>\$ 262,082</u>	<u>\$ 93,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,072</u>

**LYON COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS  
SCHOOL ACTIVITY FUNDS - LYON COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance 6/30/2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
<b>LYON COUNTY HIGH SCHOOL:</b>							
General							
General	\$ 700	\$ 12,914	\$ 13,360	\$ 254	\$ -	\$ -	\$ 254
Drink Machine	-	768	728	40	-	-	40
Lounge Drink Machine	-	430	430	-	-	-	-
Student Inst Fees	-	2,475	2,475	-	-	-	-
Calculator Rental	622	-	-	622	-	-	622
Book Rentals	-	340	340	-	-	-	-
Athletics							
General	3,417	18,350	19,650	2,117	-	-	2,117
Concessions	1,300	11,804	12,188	916	-	-	916
Boys' Basketball Camp	1,788	3,740	4,215	1,313	-	-	1,313
Boys' Basketball	3,595	5,734	6,371	2,958	-	-	2,958
Girls' Basketball Camp	4,120	1,600	1,773	3,947	-	-	3,947
Girls' Basketball	3,015	5,724	7,414	1,325	-	-	1,325
Cheerleading	514	4,275	4,789	-	-	-	-
Fishing Team	2,147	2,035	3,497	685	-	-	685
Track Team	-	1,601	1,601	-	-	-	-
Cross Country	-	481	481	-	-	-	-
Archery Team	406	-	-	406	-	-	406
Golf	-	2,697	2,697	-	-	-	-
Tennis	196	3,461	3,657	-	-	-	-
Boys' Soccer	993	2,174	2,768	399	-	-	399
Girls' Soccer	-	1,800	1,654	146	-	-	146
Baseball	614	3,282	3,896	-	-	-	-
Softball	-	2,377	2,377	-	-	-	-

(continued)

**LYON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS, continued**  
**SCHOOL ACTIVITY FUNDS - LYON COUNTY HIGH SCHOOL**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2015
<b>LYON COUNTY HIGH SCHOOL, continued</b>							
Clubs							
Art	91	940	383	648	-	-	648
Beta Club	267	1,970	1,971	266	-	-	266
History	22	-	-	22	-	-	22
FBLA	700	11,077	11,459	318	-	-	318
FCA	705	60	225	540	-	-	540
FCCLA	-	11,040	11,040	-	-	-	-
FFA	672	25,124	24,088	1,708	-	-	1,708
Ag Grant	-	2,320	1,242	1,078	-	-	1,078
Pep	28	5,594	5,467	155	-	-	155
Young Democrats	150	1,150	367	933	-	-	933
TSA	1,709	8,725	7,628	2,806	-	-	2,806
STLP	-	640	-	640	-	-	640
Dart	312	720	439	593	-	-	593
Departments							
Band	96	-	87	9	-	-	9
Consumer Ed	763	503	448	818	-	-	818
Technology Ed	172	1,434	1,541	65	-	-	65
Yearbook	4,138	9,419	9,601	3,956	-	-	3,956
Junior Class	635	6,240	3,916	2,959	-	-	2,959
Senior Class	72	2,380	2,403	49	-	-	49
	33,959	177,398	178,666	32,691	-	-	32,691
Less: Interfund transfers	-	(10,891)	(10,891)	-	-	-	-
Totals	<u>\$ 33,959</u>	<u>\$ 166,507</u>	<u>\$ 167,775</u>	<u>\$ 32,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,691</u>

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

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Education Agencies	84.010	310000214 310000213	\$ 214,708 15,390	\$ 230,098
Career and Technical Education - Basic Grants to States	84.048	371000214 371000213	7,924 320	8,244
Special Education Preschool Grants	84.173**	380000214 380000213	10,614 4,669	15,283
Rural and Low Income School Program	84.358	314000214 314000213	18,723 6,942	25,665
Improving Teacher Quality State Grants	84.367	323000213		2,973
Twenty-First Century Community Community Learning Centers	84.287	340000213 340000212	60,591 24,277	84,868
Special Education - Grants to States	84.027**	381000214 381000213 381000212	140,679 15,928 36	156,643
Race to the Top	84.413	396000211		648
Total U. S. Department of Education				<u>524,422</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program	* 10.553***	7760005-14 7760005-15	15,524 54,804	70,328
National School Lunch Program	* 10.555***	7750002-14 7750002-15	40,457 144,956	
Noncash Assistance - Commodities (Note 4)		Fund 51	19,210	204,623
Total U.S. Department of Agriculture				<u>274,951</u>
Total Expenditures of Federal Awards				<u>\$ 799,373</u>

\*Child Nutrition Cluster

\*\*Special Education Cluster

\*\*\*Major Program

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

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**NOTE 3 – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

**NOTE 4 – COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

## **INTERNAL CONTROL AND COMPLIANCE**

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



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

Kentucky State Committee  
for School District Audits  
Members of the Board of Education  
Lyon County School District  
Eddyville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lyon County School District's basic financial statements and have issued our report thereon dated November 6, 2015.

**Internal Control over Financial Reporting**

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

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

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (item 2015-001).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

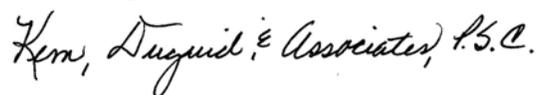
### **Lyon County School District's Response to Findings**

The Lyon County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lyon County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 6, 2015

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



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

Kentucky State Committee  
for School District Audits  
Members of the Board of Education  
Lyon County School District  
Eddyville, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Lyon County School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lyon County School District's major federal programs for the year ended June 30, 2015. Lyon County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

## Opinion on Each Major Federal Program

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

## Report on Internal Control over Compliance

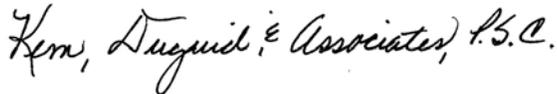
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 6, 2015

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

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?                    \_\_\_ yes     X  no

Significant deficiency(ies) identified?             X  yes    \_\_\_ none reported

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?            \_\_\_ yes     X  none reported

Type of auditors’ 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 federal programs:

Program Title	CFDA Number
School Breakfast Program	10.553
National School Lunch Program	10.555

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

Auditee qualified as a low-risk auditee?                     X  yes    \_\_\_ no

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

**Section II – Financial Statement Findings**

**2015-001 Internal Controls**

**Condition** – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

**Criteria** – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

**Effect** – Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

**Recommendation** – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

**Response** – It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

**Section III – Federal Award Findings and Questioned Costs**

None reported

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

**2014-01 Internal Controls**

**Condition** – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

**Recommendation** – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

**Current Status** – The finding was repeated for the fiscal year ending June 30, 2015.

**MANAGEMENT COMMENTS FOR AUDIT**

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

WALTER G. CUMMINGS, CPA



November 6, 2015

Members of the Board of Education  
Lyon County School District  
Eddyville, Kentucky

In planning and performing our audit of the financial statements of Lyon County School District (the "District") for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 6, 2015, contains our report on the District's internal control. This letter does not affect our report dated November 6, 2015 on the financial statements of the Lyon County School District.

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

We performed a follow-up on the prior year findings with the status of these findings documented on page 79 of this report.

This report is intended solely for the information and use of management, the members of the Lyon County Board of Education, others within the District, and the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

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

Certified Public Accountants  
Hopkinsville, Kentucky

**LYON COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**LYON COUNTY MIDDLE SCHOOL**

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed that the multiple receipt form was not being completed correctly. There were multiple instances in which the student remitting money did not sign the Multiple Receipt Form. There were also multiple instances in which the teacher/sponsor remitting the Multiple Receipt Form did not sign or date the form.

**Criteria** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires use of specific forms (or reasonable facsimiles) and various procedures for certain activities. All students 3<sup>rd</sup> grade and above remitting money shall sign the Multiple Receipt Form. When the form is remitted to the treasurer, both the teacher/sponsor shall date and sign the form.

**Cause** – Oversight.

**Effect** – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

**Recommendation** – When the Multiple Receipt Form is used, any student remitting money should sign the form. Once the form is completed and remitted to the treasurer, both the sponsor/teacher and treasurer should date and sign.

**Response** – The school will comply with the recommendation

- II. **Condition** – Cash disbursements testing of a randomly chosen sample revealed instances in which only one individual signed the check.

**Criteria** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that all checks shall contain the signatures of the principal's designee and the school treasurer. The principal designee must be someone that has administrative approving authority.

**Cause** – Oversight.

**Effect** – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

**Recommendation** – Any check written shall have two signatures, the school treasurer and a principal's designee.

**Response** – The school will comply with the recommendation.

**LYON COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**LYON COUNTY HIGH SCHOOL**

- I. **Condition** – Cash disbursements testing of a randomly chosen sample revealed instances in which only one individual signed the check.

**Criteria** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that all checks shall contain the signatures of the principal's designee and the school treasurer. The principal designee must be someone that has administrative approving authority.

**Cause** – Oversight.

**Effect** – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

**Recommendation** – Any check written shall have two signatures, the school treasurer and a principal's designee.

**Response** – The school will comply with the recommendation.

**LYON COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**LYON COUNTY MIDDLE SCHOOL**

- I. **Condition** – Inventory Control Worksheet testing of a randomly chose sample revealed several instances of worksheet not completed correctly with beginning inventory, explanation of over and short discrepancies and no initials on form.

**Recommendation** – The person in charge of inventory control should review the Red Book and comply with its requirements regarding the proper procedures for using inventory control worksheets.

**Current Status** – The finding was repeated for the fiscal year ending June 30, 2015 and June 30, 2014.

**LYON COUNTY HIGH SCHOOL**

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of money collected by a teacher/sponsor not turned in timely to the school treasurer.

**Recommendation** – All money collected by a teacher/sponsor should be given to the school treasurer on the day collected.

**Current Status** – The finding was not repeated for the fiscal year ending June 30, 2015.