

LYON COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

**LYON COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

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

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 as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

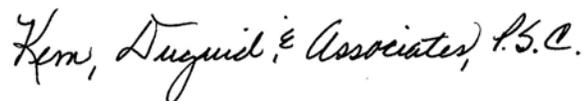
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 on our consideration of Lyon County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 43 through 45 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County School District's financial statements as a whole. The introductory section, combining, and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken 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 express no opinion or provide any assurance on it.

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 9, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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, 2012. 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 \$5,567,533, as compared with the beginning cash balance of \$1,036,853. The ending cash balance consisted of General Fund of \$919,730, Special Revenue Fund of (\$20,774), Construction Fund of \$4,442,326, Facility Support Program (FSPK) Fund of \$56,930; SEEK Capital Outlay Fund of \$17,076, Debt Service Fund of \$345, Food Service Fund of \$47,099, and School Activity Funds of \$104,801.
- Total government-wide net assets increased by \$310,619 for the fiscal year ended June 30, 2012. Total long-term obligations had a net increase of \$4,692,295, while the unrestricted net assets increased \$274,484 and restricted assets increased \$5,626.
- The General Fund had \$6,925,244 in revenues, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year revenues of \$6,512,565. This is a result of an increase in local tax rates, on-behalf payments and the transfer of Capital Funds. Excluding interfund transfers, there were \$6,552,189 in General Fund expenditures. This compares to \$6,586,765 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,300,524 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions and health insurance. 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.

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

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

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS, continued

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

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

The government-wide financial statements can be found on pages 12 and 13 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information regarding the District's accounting funds as opposed to the District as a whole, focusing on the District's major funds. A fund is a grouping of related accounts used to segregate sources of funding and spending on particular programs or activities. The District's funds are mandated by the state as part of a statewide uniform system of accounting for school districts to ensure compliance with finance and legal requirements. The District's major funds are the General Fund, Special Revenue Fund and Construction Fund. The District has three types of funds:

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, four Special Revenue Funds and a Debt Service Fund. The major funds are the General, Special Revenue and Construction Funds. The non-major funds are the Facility Support Program (FSPK), Capital Outlay, and Debt Service.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

The District adopts an annual appropriated budget for its General Fund as well as its other governmental funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue to demonstrate compliance with this budget.

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.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

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

The notes to the financial statements can be found on pages 23-42 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$4,291,739 as of June 30, 2012.

A significant portion of the District’s net assets 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, 2012**

Following is a summary of the District’s government-wide net assets for the fiscal years ended June 30, 2012 and 2011:

Net Assets for the Fiscal Years Ended June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		District Total	
	2012	2011	2012	2011	2012	2011
Current assets and other assets	\$ 5,774,987	\$ 1,100,455	\$ 62,511	\$ 77,351	\$ 5,837,498	\$ 1,177,806
Capital assets	8,224,805	7,619,256	56,712	46,097	8,281,517	7,665,353
Total assets	13,999,792	8,719,711	119,223	123,448	14,119,015	8,843,159
Current liabilities	558,024	283,568	344	888	558,368	284,456
Noncurrent obligations	9,268,908	4,577,583	-	-	9,268,908	4,577,583
Total liabilities	9,826,932	4,861,151	344	888	9,827,276	4,862,039
Net assets						
Investment in capital assets, net of related debt	3,096,145	3,076,251	56,712	46,097	3,152,857	3,122,348
Restricted	268,206	262,580	-	-	268,206	262,580
Unrestricted	808,509	519,729	62,167	76,463	870,676	596,192
Total net assets	\$ 4,172,860	\$ 3,858,560	\$ 118,879	\$ 122,560	\$ 4,291,739	\$ 3,981,120

Change in net assets. The District’s governmental activities net assets increased by \$314,300 and business-type assets decreased \$3,681.

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 assets from the direct payment of principal by the SFCC of \$80,822. 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, 2012**

Following is a summary of schedule of changes in the District's net assets for the years ended June 30, 2012 and 2011:

Changes in Net Assets for the Fiscal Years Ended June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		District Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 4,313,347	\$ 4,124,994	\$ 253,863	\$ 234,885	\$ 4,567,210	\$ 4,359,879
Capital grants and contributions	95,492	95,764	-	-	95,492	95,764
Charges for services	-	-	141,091	146,595	141,091	146,595
General revenues:						
Property taxes	2,463,351	2,382,222	-	-	2,463,351	2,382,222
Other taxes	1,563,854	1,606,129	-	-	1,563,854	1,606,129
Investment earnings	8,056	3,520	166	173	8,222	3,693
State aid	40,897	24,155	38,416	55,400	79,313	79,555
Other	43,242	77,068	1,895	1,386	45,137	78,454
Total revenues	8,528,239	8,313,852	435,431	438,439	8,963,670	8,752,291
Expenses:						
Instruction	4,749,965	4,713,271	-	-	4,749,965	4,713,271
Student support services:	324,875	322,810	-	-	324,875	322,810
Instructional support	561,233	542,270	-	-	561,233	542,270
District administration	389,896	440,739	-	-	389,896	440,739
School administration	472,805	547,947	-	-	472,805	547,947
Business support	215,781	189,359	-	-	215,781	189,359
Plant operations	641,806	476,943	-	-	641,806	476,943
Student transportaion	542,332	578,217	-	-	542,332	578,217
Community services	80,996	79,158	-	-	80,996	79,158
Interest on long-term debt	226,394	202,042	-	-	226,394	202,042
Amortization	5,962	6,103	-	-	5,962	6,103
Other	1,894	144,862	-	-	1,894	144,862
Food service	-	-	439,112	435,561	439,112	435,561
Total expenses	8,213,939	8,243,721	439,112	435,561	8,653,051	8,679,282
Increase (Decrease) in net assets	\$ 314,300	\$ 70,131	\$ (3,681)	\$ 2,878	\$ 310,619	\$ 73,009

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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 \$5,152,771 an increase of \$4,350,191 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, 2012 and 2011.

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 Districts 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, 2012**

Following is a summary of fund balances for the fiscal years ended June 30, 2012 and 2011:

Governmental Funds Balances as of June 30, 2012 and 2011

	<u>FYE 2012</u>	<u>FYE 2011</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 971,780	\$ 728,571	\$ 243,209
Special Revenue Fund	-	-	-
Building Fund	56,930	56,930	-
Construction	4,106,640	-	4,106,640
Capital Outlay	17,076	17,076	-
Debt Service Fund	345	3	342
	<u>5,152,771</u>	<u>802,580</u>	<u>4,350,191</u>
Total governmental funds	<u>\$ 5,152,771</u>	<u>\$ 802,580</u>	<u>4,350,191</u>
Proprietary Funds			
Food Service Fund	<u>\$ 118,879</u>	<u>\$ 122,560</u>	<u>(3,681)</u>
Fiduciary Funds			
School Activity Funds	<u>\$ 104,801</u>	<u>\$ 98,422</u>	<u>6,379</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 \$754,405, while total fund balance reached \$971,780. 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 11.51% of total General Fund expenditures, while total fund balance represents 14.83% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$243,209. Revenues and transfers totaling \$7,045,744, increased by \$533,051, while expenditures and transfers totaling \$6,802,535, increased by \$193,685.

**LYON COUNTY SCHOOL DISTRICT – EDDYVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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% contingency. The District adopted a General Fund budget with a contingency of 3.74%. 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 \$1,300,524 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, 2012, net of interfund transfers, beginning balances, and on-behalf payments, were \$5,624,286; compared to the total budgeted revenues of \$5,361,523.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2012, net of interfund transfers and on-behalf payments, were \$5,251,655; compared to the total budgeted expenditures, net of contingency (\$218,075), of \$5,611,553.
- The fund balance at the end of the 2012 fiscal year for all Governmental Funds was \$5,152,771 compared to \$802,580 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 or debt service. The State contributes to Fund 310.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2012, the District had \$8,281,517 invested in capital assets net of depreciation: historical costs totaled \$14,441,739 with accumulated depreciation totaling \$6,160,222. 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 \$972,728. Depreciation charged to expense during the year totaled \$356,564, 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, 2012**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2012 and 2011.

Net Capital Assets for the Fiscal Years Ended June 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 223,109	\$ 223,109	\$ -	\$ -	\$ 223,109	\$ 223,109
Land improvements	22,272	57,382	-	-	22,272	57,382
Construction in progress	872,704	-	-	-	872,704	-
Building and improvements	6,531,498	6,670,735	28,527	29,713	6,560,025	6,700,448
Technology equipment	84,905	134,698	1,231	1,763	86,136	136,461
General equipment	111,289	133,178	-	-	111,289	133,178
Vehicles	379,028	400,154	-	-	379,028	400,154
Food service equipment	-	-	26,954	14,621	26,954	14,621
	<u>-</u>	<u>-</u>	<u>26,954</u>	<u>14,621</u>	<u>26,954</u>	<u>14,621</u>
Total	<u>\$ 8,224,805</u>	<u>\$ 7,619,256</u>	<u>\$ 56,712</u>	<u>\$ 46,097</u>	<u>\$ 8,281,517</u>	<u>\$ 7,665,353</u>

Long-Term Debt – The District’s long-term general obligation bonds outstanding at June 30, 2012 were \$9,235,300. 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 \$942,444 of the bonds leaving the District to pay \$8,292,856. The liability for compensated absences remained steady for the fiscal year. Other long-term obligations, mostly leases on buses, will decrease as the leases are paid down.

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. 401 or by mail at 217 Jenkins Road, Eddyville, KY 42038.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012**

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,415,633	\$ 47,099	\$ 5,462,732
Accounts receivable:			
Taxes	85,097	-	85,097
Other	1,232	-	1,232
Intergovernmental - state	493	-	493
Intergovernmental - indirect federal	113,580	-	113,580
Inventory	-	15,412	15,412
Deferred charges	158,952	-	158,952
Capital assets:			
Non-depreciable	1,095,813	-	1,095,813
Depreciable (net)	7,128,992	56,712	7,185,704
 Total assets	 <u>13,999,792</u>	 <u>119,223</u>	 <u>14,119,015</u>
LIABILITIES			
Accounts payable	364,986	344	365,330
Accrued payroll and related expenses	1,969	-	1,969
Deferred revenue	88,744	-	88,744
Interest payable	102,325	-	102,325
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	472,264	-	472,264
Accrued sick leave	7,565	-	7,565
Portion due or payable after one year:			
Bonds payable	8,763,036	-	8,763,036
Accrued sick leave	26,043	-	26,043
 Total liabilities	 <u>9,826,932</u>	 <u>344</u>	 <u>9,827,276</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,096,145	56,712	3,152,857
Restricted for:			
Construction	193,855	-	193,855
SFCC	74,006	-	74,006
Debt service	345	-	345
Unrestricted	808,509	62,167	870,676
 Total net assets	 <u>\$ 4,172,860</u>	 <u>\$ 118,879</u>	 <u>\$ 4,291,739</u>

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	Program Revenues				Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Governmental Activities:					
Current:					
Instruction	\$ 4,749,965	\$ -	\$ 3,503,789	\$ -	\$ (1,246,176)
Support services:					
Student	324,875	-	64,604	-	(260,271)
Instructional staff	561,233	-	240,289	-	(320,944)
District administration	389,896	-	38,728	-	(351,168)
School administration	472,805	-	94,706	-	(378,099)
Business	215,781	-	77,204	-	(138,577)
Plant operation and maintenance	641,806	-	34,501	-	(607,305)
Student transportation	542,332	-	34,501	-	(507,831)
Community service activities	80,996	-	225,025	-	144,029
Other	1,894	-	-	-	(1,894)
Interest on long-term debt	226,394	-	-	95,492	(130,902)
Amortization	5,962	-	-	-	(5,962)
Total governmental activities	8,213,939	-	4,313,347	95,492	(3,805,100)
Business-Type Activities:					
Food service	439,112	141,091	253,863	-	(44,158)
Total business-type activities	439,112	141,091	253,863	-	(44,158)
Total activities	\$ 8,653,051	\$ 141,091	\$ 4,567,210	95,492	\$ (3,849,258)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Assets					
Net revenues (expenses)			\$ (3,805,100)	\$ (44,158)	\$ (3,849,258)
General Revenues					
Taxes:					
Property			2,463,351	-	2,463,351
Motor vehicle			361,297	-	361,297
Utilities			491,239	-	491,239
Other			711,318	-	711,318
Investment earnings			8,056	166	8,222
State aid			40,897	38,416	79,313
Gain (loss) on sale of fixed assets			434	-	434
Miscellaneous			42,808	1,895	44,703
Total general revenues			4,119,400	40,477	4,159,877
Change in net assets			314,300	(3,681)	310,619
Net assets, July 1, 2011			3,858,560	122,560	3,981,120
Net assets, June 30, 2012			\$ 4,172,860	\$ 118,879	\$ 4,291,739

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 919,730	\$ (20,774)	\$ 4,442,326	\$ 74,351	\$ 5,415,633
Accounts receivable:					
Taxes	85,097	-	-	-	85,097
Other	1,232	-	-	-	1,232
Intergovernmental - state	-	493	-	-	493
Intergovernmental - indirect federal	-	113,580	-	-	113,580
 Total assets	 <u>\$ 1,006,059</u>	 <u>\$ 93,299</u>	 <u>\$ 4,442,326</u>	 <u>\$ 74,351</u>	 <u>\$ 5,616,035</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 24,745	\$ 4,555	\$ 335,686	\$ -	\$ 364,986
Accrued payroll and related expenses	1,969	-	-	-	1,969
Accrued sick leave	7,565	-	-	-	7,565
Deferred revenue	-	88,744	-	-	88,744
 Total liabilities	 <u>34,279</u>	 <u>93,299</u>	 <u>335,686</u>	 <u>-</u>	 <u>463,264</u>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	193,855	-	4,106,640	74,351	4,374,846
Committed	23,520	-	-	-	23,520
Assigned	-	-	-	-	-
Unassigned	754,405	-	-	-	754,405
 Total fund balances	 <u>971,780</u>	 <u>-</u>	 <u>4,106,640</u>	 <u>74,351</u>	 <u>5,152,771</u>
 Total liabilities and fund balances	 <u>\$ 1,006,059</u>	 <u>\$ 93,299</u>	 <u>\$ 4,442,326</u>	 <u>\$ 74,351</u>	 <u>\$ 5,616,035</u>

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balance per fund financial statements \$ 5,152,771

Amounts reported for governmental activities in the statement
of net assets 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 \$14,215,774,
and the accumulated depreciation is \$5,990,969. 8,224,805

Certain assets used in governmental activities are not current
financial resources and, therefore, are not reported as assets
in governmental funds. These assets at year-end consist of:

Bond discount	91,711	
Bond issue costs	67,241	158,952

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	(9,135,000)	
KISTA lease payments	(100,300)	
Interest payable on bonds	(102,325)	
Noncurrent portion of accumulated sick leave	(26,043)	(9,363,668)

Net assets for governmental activities \$ 4,172,860

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, 2012**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 2,124,561	\$ -	\$ -	\$ 338,790	\$ 2,463,351
Motor vehicle	335,938	-	-	25,359	361,297
Utilities	491,239	-	-	-	491,239
Other	711,318	-	-	-	711,318
Earnings on investments	8,027	29	-	-	8,056
Other local revenues	6,202	36,606	-	-	42,808
Intergovernmental - state	3,230,102	354,435	-	174,465	3,759,002
Intergovernmental - federal	17,423	673,311	-	-	690,734
Total revenues	<u>6,924,810</u>	<u>1,064,381</u>	<u>-</u>	<u>538,614</u>	<u>8,527,805</u>
EXPENDITURES					
Current:					
Instruction	3,634,798	911,796	-	-	4,546,594
Support Services:					
Student	323,627	-	-	-	323,627
Instructional staff	493,001	62,979	-	-	555,980
District administration	366,364	-	-	20,614	386,978
School administration	471,317	-	-	-	471,317
Business	190,831	24,584	-	-	215,415
Plant operations and maintenance	613,238	-	-	-	613,238
Student transportation	442,929	-	-	-	442,929
Community service activities	-	80,666	-	-	80,666
Building acquisition and construction	-	-	872,704	-	872,704
Architectural/engineering	1,894	-	-	-	1,894
Debt service	14,190	-	-	631,860	646,050
Total expenditures	<u>6,552,189</u>	<u>1,080,025</u>	<u>872,704</u>	<u>652,474</u>	<u>9,157,392</u>
Excess (deficit) of revenues over (under) expenditures	<u>372,621</u>	<u>(15,644)</u>	<u>(872,704)</u>	<u>(113,860)</u>	<u>(629,587)</u>
Other financing sources (uses)					
Bond principal proceeds, net	-	-	4,979,344	-	4,979,344
Proceeds from disposal of fixed assets	434	-	-	-	434
Operating transfers in	120,500	15,644	-	536,710	672,854
Operating transfers out	(250,346)	-	-	(422,508)	(672,854)
Total other financing sources (use)	<u>(129,412)</u>	<u>15,644</u>	<u>4,979,344</u>	<u>114,202</u>	<u>4,979,778</u>
Net changes in fund balances	243,209	-	4,106,640	342	4,350,191
Fund balances, July 1, 2011	<u>728,571</u>	<u>-</u>	<u>-</u>	<u>74,009</u>	<u>802,580</u>
Fund balances, June 30, 2012	<u>\$ 971,780</u>	<u>\$ -</u>	<u>\$ 4,106,640</u>	<u>\$ 74,351</u>	<u>\$ 5,152,771</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, 2012**

Net change in fund balance - Total governmental funds \$ 4,350,191

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	958,228	
Depreciation expense	(352,679)	
	605,549	605,549

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 assets, 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 assets.

Bond proceeds, net	(4,979,344)	
Bond repayments	455,000	
New KISTA lease	(80,011)	
KISTA lease payments	12,716	
	(4,591,639)	(4,591,639)

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:

Amortization of bond issue costs	(5,962)	
Discount on bond issuance	(7,686)	
Accumulated sick leave-noncurrent portion	4,221	
Accrued interest on bonds	(40,374)	
	(49,801)	(49,801)

Change in net assets of governmental activities \$ 314,300

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 47,099
Accounts receivable	-
Inventory	15,412
Total current assets	62,511
Noncurrent assets	
Capital assets	225,964
Less: accumulated depreciation	(169,252)
Total noncurrent assets	56,712
Total assets	119,223
LIABILITIES	
Current liabilities	
Accounts payable	344
Total current liabilities	344
NET ASSETS	
Invested in capital assets, net of related debt	56,712
Unrestricted	62,167
Total net assets	\$ 118,879

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	School Food Service Fund
OPERATING REVENUES	
Lunchroom sales	\$ 141,091
Other revenue	1,895
	142,986
Total operating revenues	142,986
 OPERATING EXPENSES	
Salaries and wages	259,871
Materials and supplies	167,733
Depreciation	3,884
Contract services	7,624
	439,112
Total operating expenses	439,112
Operating income (loss)	(296,126)
 NON-OPERATING REVENUES (EXPENSES)	
Federal grants	238,962
Donated commodities	14,901
State grants	3,915
State on-behalf payments	34,501
Interest income	166
	292,445
Total non-operating revenues (expenses)	292,445
Change in net assets	(3,681)
Net assets, July 1, 2011	122,560
Net assets, June 30, 2012	\$ 118,879

See accompanying notes to financial statements

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>School Food Service Fund</u>
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 141,091
Other activities	1,895
Cash paid to/for:	
Employees	(225,370)
Supplies	(152,094)
Contract services	(7,624)
	<u>(242,102)</u>
Net cash provided (used) by operating activities	<u>(242,102)</u>
Cash flows from noncapital financing activities	
Transfers in (out)	-
Government grants	242,878
	<u>242,878</u>
Net cash provided (used) by noncapital financing activities	<u>242,878</u>
Cash flows from investing activities	
Purchase of fixed assets	(14,500)
Receipt of interest income	166
	<u>(14,334)</u>
Net cash provided (used) by investing activities	<u>(14,334)</u>
Net increase (decrease) in cash and cash equivalents	(13,558)
Balances, beginning of year	<u>60,657</u>
Balances, end of year	<u><u>\$ 47,099</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, 2012**

	<u>School Food Service Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (296,126)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	3,884
Donated commodities	14,901
State on-behalf payments	34,501
Change in assets and liabilities:	
Accounts receivable	-
Inventory	1,282
Accounts payable	(544)
	<u>(242,102)</u>
Net cash provided (used) by operating activities	<u>\$ (242,102)</u>
Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 14,901
On-behalf payments	34,501

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 104,801
Accounts receivable	<u>-</u>
Total assets	<u>104,801</u>
 LIABILITIES	
Accounts payable	-
Due to student groups	<u>104,801</u>
Total liabilities	<u>104,801</u>
 NET ASSETS	 <u><u>\$ -</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. 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 school 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" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Lyon County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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:

Lyon County School District Finance Corporation – In 1990, the Lyon County, Kentucky Board of Education established 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 government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect on interfund activities.

The government-wide statements are prepared using the economic resources measurement focus. This approach 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, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the 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 and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The fund's principal operating revenues are food service charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Agency funds have no measurement focus.

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 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The District has the following funds:

Governmental Fund Types

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

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 (including payment of bonded lease obligations).

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. The Construction Fund is a major fund of the District.

The *Bond and Interest and Redemption Fund* is a debt service fund used to account for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs.

Proprietary Fund

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).

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fiduciary Fund Types (including agency and trust funds)

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

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in 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.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For government-wide financial statements and proprietary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 are applied, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Revenues – Exchange and Non-exchange Transactions:

Revenue 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 collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Revenue:

Deferred 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 deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred 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. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

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.

Assets, Liabilities, and Equity

Cash and Cash Equivalents:

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

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Inventories:

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. The Proprietary Fund inventory is recorded at the lower of cost, determined by first-in first-out (“FIFO”) method, or market value.

Bond Issue Costs:

Costs associated with the issuance of bond obligations, including underwriter fees, fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Deferred Interest:

The difference between the amount borrowed to advance refund existing debt and the amount escrowed for the payment of the old debt is recorded as deferred interest and amortized over the remaining life of the refunded debt on the government-wide financial statements. Deferred interest on advance refunding issues is not reported on the governmental funds financial statements.

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 assets, 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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000) with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Rolling stock	15 years
Other	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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences:

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

Fund Balances:

Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Net Assets:

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

Subsequent Events

Subsequent events have been evaluated through November 9, 2012, which is the date the financial statements were available to be issued.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2012, the carrying amounts of the District's deposits were \$5,567,533 and the bank balances were \$5,929,706.

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

Governmental funds	\$ 5,415,633
Proprietary funds	47,099
Fiduciary funds	<u>104,801</u>
 Total	 <u><u>\$ 5,567,533</u></u>

Funds of the District are considered to be public funds and, therefore, their investment is limited by state statute to certain obligations of the United States or similar governmental agencies, cash instruments, and certain pooled investment funds.

Custodial Credit Risk

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. The District does not have a deposit policy for custodial credit risk. However, state statutes require the District's bank deposits to be collateralized. As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets not depreciated:				
Land	\$ 223,109	\$ -	\$ -	\$ 223,109
Construction in progress	-	872,704	-	872,704
Total nondepreciable historical cost	<u>223,109</u>	<u>872,704</u>	<u>-</u>	<u>1,095,813</u>
Capital assets depreciated:				
Land improvements	724,533	-	-	724,533
Buildings and improvements	9,852,749	2,625	-	9,855,374
Technology equipment	946,364	5,650	33,562	918,452
General equipment	347,686	-	-	347,686
Vehicles	1,196,667	77,249	-	1,273,916
Total depreciable historical cost	<u>13,067,999</u>	<u>85,524</u>	<u>33,562</u>	<u>13,119,961</u>
Less: accumulated depreciation				
Land improvements	667,151	35,110	-	702,261
Building and improvements	3,182,014	141,862	-	3,323,876
Technology equipment	811,666	55,443	33,562	833,547
General equipment	214,508	21,889	-	236,397
Vehicles	796,513	98,375	-	894,888
Total accumulated depreciation	<u>5,671,852</u>	<u>352,679</u>	<u>33,562</u>	<u>5,990,969</u>
Total depreciable historical cost - net	<u>7,396,147</u>	<u>(267,155)</u>	<u>-</u>	<u>7,128,992</u>
Governmental activities capital assets - net	<u>\$ 7,619,256</u>	<u>\$ 605,549</u>	<u>\$ -</u>	<u>\$ 8,224,805</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CAPITAL ASSETS, continued

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

Governmental Activities

Instruction	\$ 207,592
Support services:	
Student	1,248
Instructional staff	5,253
District administration	8,431
School administration	1,488
Business	366
Plant operation and maintenance	28,568
Student transportation	99,403
Community service	330
	<u>330</u>
	<u>\$ 352,679</u>

Business-Type Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets depreciated:				
Buildings and improvements	\$ 59,229	\$ -	\$ -	\$ 59,229
Technology equipment	7,000	-	1,632	5,368
Food service equipment	146,868	14,500	-	161,368
	<u>213,097</u>	<u>14,500</u>	<u>1,632</u>	<u>225,965</u>
Total depreciable historical cost				
Less: accumulated depreciation				
Buildings and improvements	29,516	1,186	-	30,702
Technology equipment	5,237	532	1,632	4,137
Food service equipment	132,247	2,167	-	134,414
	<u>167,000</u>	<u>3,885</u>	<u>1,632</u>	<u>169,253</u>
Total accumulated depreciation				
Business-type activities capital assets - net	<u>\$ 46,097</u>	<u>\$ 10,615</u>	<u>\$ -</u>	<u>\$ 56,712</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

On January 1, 2011, Lyon County Board of Education issued \$80,111 KISTA bonds for the purchase of a new bus.

On February 1, 2012, Lyon County Board of Education issued \$5,080,000 School Building Revenue Bonds Series 2012 for construction of a new middle school.

The amounts shown in the accompanying financial statements as bond obligations represent the District's future obligations to make bond payments related to school building revenue bonds issued by the Lyon County School District Finance Corporation on behalf of the District for purposes of school facility construction. These bond payments also relate to project bonds issued by Kentucky Inter-local School Transportation Association (KISTA). These amounts are not reflected on the fund financial statements.

<u>Issue</u>	<u>Proceeds</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>
1998	\$ 975,000	2012	3.65%-4.00%
2001	1,225,000	2012	2.20%-3.95%
2002	3,900,000	2023	1.60%-4.40%
2003	1,500,000	2015	1.15%-3.85%
KISTA 2009R	36,835	2020	2.00%-3.60%
2010	275,000	2020	3.00%-3.50%
KISTA 2011	80,011	2021	1.00%-4.00%
2011	5,080,000	2032	1.00%-3.25%

The District, through the General Fund, the Facility Support Program (FSPK) Fund 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. Upon completion of such payments, the lease premises should become the property of the District. The District is obligated to maintain property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

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.

In 1998, 2001, 2003, 2010 and 2011 the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. 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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as follows:

Year	Lyon County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2012-2013	\$ 396,183	\$ 259,852	\$ 76,081	\$ 26,139	\$ 758,255
2013-2014	389,498	247,549	46,578	24,119	707,744
2014-2015	398,832	234,485	47,492	23,204	704,013
2015-2016	513,015	218,603	38,515	22,257	792,390
2016-2017	527,450	202,710	39,385	21,386	790,931
2017-2018	546,883	185,913	40,273	20,499	793,568
2018-2019	570,713	168,071	41,190	19,580	799,554
2019-2020	583,528	149,072	42,220	18,550	793,370
2020-2021	599,175	129,134	43,289	17,481	789,079
2021-2022	620,601	108,101	44,399	16,371	789,472
2022-2023	644,413	85,929	45,587	15,183	791,112
2023-2024	248,125	71,430	46,875	13,895	380,325
2024-2025	256,807	65,847	48,193	12,578	383,425
2025-2026	260,378	59,427	49,622	11,148	380,575
2026-2027	268,869	52,592	51,131	9,639	382,231
2027-2028	282,275	45,198	52,725	8,046	388,244
2028-2029	285,493	36,730	54,507	6,264	382,994
2029-2030	293,633	28,165	56,367	4,401	382,566
2030-2031	296,726	19,356	38,274	2,488	356,844
2031-2032	310,259	10,085	39,741	1,291	361,376
	<u>\$ 8,292,856</u>	<u>\$ 2,378,249</u>	<u>\$ 942,444</u>	<u>\$ 294,519</u>	<u>\$ 11,908,068</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The changes in outstanding debt are as follows:

<u>Bonds</u>	<u>Balance July 1, 2011</u>	<u>New Issues/ Adjustments</u>	<u>Debt Payments/ Adjustments</u>	<u>Balance June 30, 2012</u>
Series 1998	\$ 95,000	\$ -	\$ 95,000	\$ -
Series 2001	130,000	-	130,000	-
Series 2002	3,375,000	-	100,000	3,275,000
Series 2003	645,000	-	120,000	525,000
Series 2010	265,000	-	10,000	255,000
Series 2012	-	5,080,000	-	5,080,000
Total series	<u>4,510,000</u>	<u>5,080,000</u>	<u>455,000</u>	<u>9,135,000</u>
 <u>Capital Leases</u>				
KISTA 2009R	33,005	-	4,063	28,942
KISTA 2011	-	80,011	8,653	71,358
Total capital leases	<u>33,005</u>	<u>80,011</u>	<u>12,716</u>	<u>100,300</u>
Totals	<u>\$ 4,543,005</u>	<u>\$ 5,160,011</u>	<u>\$ 467,716</u>	<u>\$ 9,235,300</u>

NOTE 5 – FUND BALANCE REPORTING

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Lyon County Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – FUND BALANCE REPORTING, continued

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the Board.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:					
Future construction	193,855	-	-	-	193,855
Capital outlay	-	-	4,106,640	-	4,106,640
SFCC escrow	-	-	-	74,006	74,006
Debt service	-	-	-	345	345
Committed:					
Sick leave	11,848	-	-	-	11,848
Site-based carryforward	11,672	-	-	-	11,672
Assigned	-	-	-	-	-
Unassigned	754,405	-	-	-	754,405
	<u>\$ 971,780</u>	<u>\$ -</u>	<u>\$ 4,106,640</u>	<u>\$ 74,351</u>	<u>\$ 5,152,771</u>

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – COMPENSATED ABSENCES

Upon retirement 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 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 2013 is \$7,565. Management has estimated that the long-term obligation will be approximately \$26,043.

NOTE 7 – CONTINGENCIES

Grant Programs

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 8 – PENSION PLANS

Kentucky Teachers' Retirement

Plan description - The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). Any benefit amendments must be authorized by the State Legislature.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.355% of the employees' salaries to KTRS for those employees hired prior to July 1, 2008 and 10.855% for employees hired after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.605% of the employees' salaries for employees hired prior to July 1, 2008 and 14.105% for employees hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – PENSION PLANS, continued

Medical Insurance Plan

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

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

Funding policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

The District's total payroll was \$4,950,927 for the year ended June 30, 2012. The payroll for employees covered under KTRS was \$3,619,536 for the year ended June 30, 2012. The Commonwealth contributed \$428,423, \$438,925, and \$459,742 to KTRS for the benefit of the participating employees for the years ended June 30, 2012, 2011, and 2010, respectively. The District's contributions to KTRS were equal to the required contributions of \$49,651, \$49,691, and \$42,007 for the years ended June 30, 2012, 2011, and 2010, respectively, which represent those employees covered by federal programs.

County Employees' Retirement System

Plan description – Substantially all other employees (classified personnel) are covered under the County Employees' Retirement System (CERS), a cost sharing, multiple-employer defined benefit plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under provision of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – PENSION PLANS, continued

Funding policy – Funding for the plan is provided through payroll withholdings of 5% for employees hired prior to September 1, 2008 and 6% for employees hired after September 1, 2008 and a District contribution of 18.96% of the employee's total compensation subject to contribution. The payroll for employees covered under CERS was \$1,223,211 for the year ended June 30, 2012. The District's contributions to CERS were equal to the required contributions of \$231,921, \$201,394 and \$197,044, for the years ended June 30, 2012, 2011 and 2010, respectively.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

NOTE 9 – ON-BEHALF PAYMENTS

The Commonwealth of Kentucky (the "State") is required to fund the matching contributions for the District's personnel participating in the Teachers' Retirement System of the State of Kentucky (see Note 8). The District also received on-behalf payments for certain fringe benefits from the State in the amount of \$906,600 for the fiscal year ending June 30, 2012. These payments, as well as the KTRS matching contributions of \$428,423, are included as equal amounts of revenues and expenditures in the accompanying Statement of Activities.

NOTE 10 – INSURANCE AND RELATED ACTIVITIES

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

NOTE 11 – RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards' Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 11 – RISK MANAGEMENT AND LITIGATION, continued

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards' Insurance Trust Unemployment Compensation Fund; however, 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 12 – DEFICIT OPERATING FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. Also, no funds had operations that resulted in a current year deficit of revenues over expenditures causing a corresponding reduction of fund balance.

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.

**LYON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 14 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	\$ 15,644
General	Debt Service	Bond payments	234,702
Capital Outlay	Debt Service	Bond payments	12,151
Capital Outlay	General	Capital Funds request	66,822
Building	Debt Service	Bond payments	289,857
Building	General	Capital Funds request	53,678
			<u>\$ 672,854</u>

NOTE 15 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2012.

NOTE 16 – PROPERTY TAXES

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business and personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2011 fiscal year was based, was \$646,385,935.

The tax rates for the school year ended June 30, 2012 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.414 real estate and \$0.414 tangible per \$100 valuation.

Taxes are due on October 1 and become delinquent by January 1 following the October 1 levy date. Current general and PSC property tax collections for the year ended June 30, 2012 were 90.80% of the tax levy.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

SUPPLEMENTARY INFORMATION

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		(Unfavorable)
REVENUES				
From local sources:				
Taxes				
Property	\$ 2,105,000	\$ 2,105,000	\$ 2,124,561	\$ 19,561
Motor vehicle	392,000	392,000	335,938	(56,062)
Utilities	490,000	490,000	491,239	1,239
Other	650,000	650,000	711,318	61,318
Earnings on investments	2,000	2,000	8,027	6,027
Other local revenues	42,000	42,000	6,202	(35,798)
Intergovernmental - state	1,674,523	1,674,523	1,929,578	255,055
Intergovernmental - federal	6,000	6,000	17,423	11,423
Other receipts	-	-	-	-
Total revenues	<u>5,361,523</u>	<u>5,361,523</u>	<u>5,624,286</u>	<u>262,763</u>
EXPENDITURES				
Current:				
Instruction	3,038,153	2,973,121	2,674,543	298,578
Support services:				
Student	245,045	243,945	259,023	(15,078)
Instructional staff	431,202	429,665	428,397	1,268
District administration	527,312	653,560	327,636	325,924
School administration	552,227	392,873	376,611	16,262
Business	149,769	146,769	182,206	(35,437)
Plant operation and maintenance	522,537	525,812	578,737	(52,925)
Student transportation	439,883	453,883	408,428	45,455
Facilities acquisition and construction	10,000	10,000	1,894	8,106
Debt service	-	-	14,190	(14,190)
Total expenditures	<u>5,916,128</u>	<u>5,829,628</u>	<u>5,251,665</u>	<u>577,963</u>
Excess (deficit) of revenues over (under) expenditures	<u>(554,605)</u>	<u>(468,105)</u>	<u>372,621</u>	<u>840,726</u>
Other financing sources (uses)				
Proceeds from sale of fixed assets	500	500	434	(66)
Operating transfers in	-	-	120,500	120,500
Operating transfers out	(20,895)	(20,895)	(250,346)	(229,451)
Total other financing sources (uses)	<u>(20,395)</u>	<u>(20,395)</u>	<u>(129,412)</u>	<u>(109,017)</u>
Net change in fund balance	(575,000)	(488,500)	243,209	731,709
Fund balance, July 1, 2011	<u>575,000</u>	<u>488,500</u>	<u>728,571</u>	<u>240,071</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 971,780</u>	<u>\$ 971,780</u>

**LYON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Earnings on investments	\$ -	-	\$ 29	\$ 29
Other local revenues	-	-	36,606	36,606
Intergovernmental - state	243,318	352,225	354,435	2,210
Intergovernmental - federal	221,478	419,246	673,311	254,065
Total revenues	464,796	771,471	1,064,381	292,910
EXPENDITURES				
Current:				
Instruction	392,598	667,665	911,796	(244,131)
Support services:				
Student	3,286	3,286	-	3,286
Instructional staff	10,811	43,102	62,979	(19,877)
School administration	-	-	-	-
Business	20,000	20,000	24,584	(4,584)
Student transportation	-	-	-	-
Community services	62,282	61,599	80,666	(19,067)
Total expenditures	488,977	795,652	1,080,025	(284,373)
Excess (deficit) of revenues over (under) expenditures	(24,181)	(24,181)	(15,644)	8,537
Other financing sources (uses)				
Operating transfers in	24,181	24,181	15,644	(8,537)
Total other financing sources (uses)	24,181	24,181	15,644	(8,537)
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2011	-	-	-	-
Fund balance, June 30, 2012	-	\$ -	\$ -	\$ -

**LYON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

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	\$ 5,624,286
On-behalf payments	<u>1,300,524</u>
Total revenues - modified cash basis	<u>\$ 6,924,810</u>
Expenditures - budgetary basis	\$ 5,251,665
On-behalf payments	<u>1,300,524</u>
Total expenditures - modified cash basis	<u>\$ 6,552,189</u>

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$284,373.

**LYON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 56,930	\$ 17,076	\$ 345	\$ 74,351
Accounts receivable	-	-	-	-
Total assets and resources	\$ 56,930	\$ 17,076	\$ 345	\$ 74,351
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances				
Nonspendable	-	-	-	-
Spendable				
Restricted	56,930	17,076	345	74,351
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	56,930	17,076	345	74,351
Total liabilities and fund balances	\$ 56,930	\$ 17,076	\$ 345	\$ 74,351

**LYON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
From local sources:				
Taxes				
Property	\$ 338,790	\$ -	\$ -	\$ 338,790
Motor vehicle	25,359	-	-	25,359
Earnings on investments	-	-	-	-
Intergovernmental - state	-	78,973	95,492	174,465
Total revenues	<u>364,149</u>	<u>78,973</u>	<u>95,492</u>	<u>538,614</u>
EXPENDITURES				
Building acquisition and construction	-	-	-	-
District administration	20,614	-	-	20,614
Debt service	-	-	631,860	631,860
Total expenditures	<u>20,614</u>	<u>-</u>	<u>631,860</u>	<u>652,474</u>
Excess (deficit) of revenues over (under) expenditures	<u>343,535</u>	<u>78,973</u>	<u>(536,368)</u>	<u>(113,860)</u>
Other financing sources (uses)				
Bond principal proceeds	-	-	-	-
Operating transfers in	-	-	536,710	536,710
Operating transfers out	(343,535)	(78,973)	-	(422,508)
Total other financing sources (uses)	<u>(343,535)</u>	<u>(78,973)</u>	<u>536,710</u>	<u>114,202</u>
Net change in fund balances:	-	-	342	342
Fund balances, July 1, 2011	<u>56,930</u>	<u>17,076</u>	<u>3</u>	<u>74,009</u>
Fund balances, June 30, 2012	<u>\$ 56,930</u>	<u>\$ 17,076</u>	<u>\$ 345</u>	<u>\$ 74,351</u>

**LYON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
 ALL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
Lyon County High School	\$ 45,665	\$ 165,313	\$ 168,835	\$ 42,143	\$ -	\$ -	\$ 42,143
Lyon County Middle School	30,061	29,316	27,342	32,035	-	-	32,035
Lyon County Elementary School	22,696	25,302	17,375	30,623	-	-	30,623
Totals	\$ 98,422	\$ 219,931	\$ 213,552	\$ 104,801	\$ -	\$ -	\$ 104,801

**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, 2012**

	Cash Balance <u>July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balance <u>June 30, 2012</u>	Accounts <u>Receivable</u>	Accounts <u>Payable</u>	Due to Student Groups <u>June 30, 2012</u>
LYON COUNTY HIGH SCHOOL:							
General							
General	\$ 193	\$ 11,469	\$ 10,475	\$ 1,187	\$ -	\$ -	\$ 1,187
Drink Machine	944	1,765	1,286	1,423	-	-	1,423
Lounge Drink Machine	132	371	426	77	-	-	77
Student Inst Fees	-	2,850	2,850	-	-	-	-
Calculator Rental	324	260	-	584	-	-	584
Athletics							
General	25,740	68,830	69,494	25,076	-	-	25,076
Boys' Basketball	401	5,131	4,265	1,267	-	-	1,267
Girls' Basketball	4,145	5,470	6,180	3,435	-	-	3,435
Cheerleading	1,109	10,658	9,564	2,203	-	-	2,203
Clubs							
Art	399	150	101	448	-	-	448
Beta Club	212	1,381	919	674	-	-	674
History	22	-	-	22	-	-	22
FBLA	269	729	998	-	-	-	-
FCA	615	484	404	695	-	-	695
FCCLA	1,105	7,821	7,792	1,134	-	-	1,134
FFA	888	21,717	22,431	174	-	-	174
Ag Grant	1,000	-	500	500	-	-	500
Junior Sportsman's Club	140	-	140	-	-	-	-
Pep	312	695	1,003	4	-	-	4
TSA	694	503	415	782	-	-	782
STLP	1,078	4,346	5,241	183	-	-	183
Dart	-	-	-	-	-	-	-

(continued)

**LYON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS, continued
 SCHOOL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
LYON COUNTY HIGH SCHOOL, continued							
Departments							
Band	72	2,742	2,808	6	-	-	6
Consumer Ed	558	349	243	664	-	-	664
Library	153	-	-	153	-	-	153
Technology Ed	-	663	634	29	-	-	29
Yearbook	4,825	11,211	16,036	-	-	-	-
Junior Class	301	5,266	4,744	823	-	-	823
Senior Class	1	2,335	1,770	566	-	-	566
Money Market	33	34	33	34	-	-	34
	45,665	167,230	170,752	42,143	-	-	42,143
Less: Interfund Transfers	-	(1,917)	(1,917)	-	-	-	-
Totals	<u>\$ 45,665</u>	<u>\$ 165,313</u>	<u>\$ 168,835</u>	<u>\$ 42,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,143</u>

**LYON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

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	310000211	\$	180,686
Career and Technical Education - Basic Grants to States	84.048	462103209 462113210 462123211	273 650 <u>7,269</u>	8,192
Special Education Preschool Grants***	84.173**	380000210 380000211	1,732 <u>6,693</u>	8,425
Improving Teacher Quality State Grants	84.367	323000209 323000210	1,698 <u>51,234</u>	52,932
Twenty-First Century Community Community Learning Centers	84.287	340000209 340000210	127,154 <u>7,494</u>	134,648
Special Education - Grants to States***	84.027**	381000209 381000210	11,646 <u>171,119</u>	182,765
Education Technology State Grants	84.318	321000209 321000210	203 <u>608</u>	811
Education Jobs Fund	84.410	EJOB0010		<u>104,852</u>
Total U. S. Department of Education				<u>673,311</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program***	* 10.553	7760005-11 7760005-12	11,855 <u>46,925</u>	58,780
National School Lunch Program***	* 10.555	7750002-11 7750002-12	36,498 <u>143,684</u>	180,182
Total U.S. Department of Agriculture				<u>238,962</u>
Total Expenditures of Federal Awards				<u>\$ 912,273</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, 2012**

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, 2012. 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 assets 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.

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



**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 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 as of and for the year ended June 30, 2012, which collectively comprise Lyon County School District's basic financial statements and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

Management of Lyon County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lyon County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lyon County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lyon County School District's internal control over financial reporting.

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 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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency in internal control over financial reporting (2012-01). 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.

Compliance and Other Matters

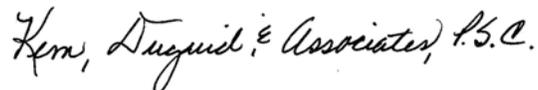
As part of obtaining reasonable assurance about whether Lyon County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*. However, we noted certain matters that we have reported to management of Lyon County School District in a separate letter dated November 9, 2012.

Lyon County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lyon County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Lyon County School District, the Kentucky Department of Education, management, others within the entity, 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.

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



Certified Public Accountants
Hopkinsville, Kentucky

November 9, 2012

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



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Lyon County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. Lyon County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lyon County School District's management. Our responsibility is to express an opinion on Lyon County School District's compliance based on our audit.

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 *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. 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 Lyon County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lyon County School District's compliance with those requirements.

In our opinion, Lyon County School District complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

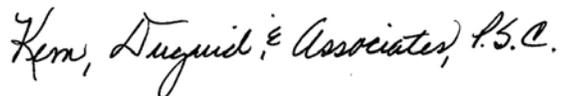
Management of Lyon County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lyon County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Lyon County School District's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Lyon County School District, the Kentucky Department of Education, management, others within the entity, 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.

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



Certified Public Accountants
Hopkinsville, Kentucky

November 9, 2012

**LYON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Lyon County School District.
2. One significant deficiency was disclosed during the audit of the financial statements. See Section B: 2012-01.
3. No instances of noncompliance material to the financial statements of Lyon County School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Lyon County School District.
5. The auditor's report on compliance for the major federal award programs for Lyon County School District expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Program Title	CFDA Number
Title I	84.010
Special Education	84.027
Special Education Preschool	84.173
School Breakfast Program	10.553
National School Lunch Program	10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Lyon County School District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-01 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.

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.

**LYON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

**LYON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no prior year findings to report for Lyon County School District.

MANAGEMENT COMMENTS FOR AUDIT

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



November 9, 2012

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 for the year ended June 30, 2012, we considered the District's internal control structure 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 some matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 9, 2012 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 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 63 of this report.

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, 2012**

LYON COUNTY MIDDLE SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of school treasurer signing Multiple Receipt Form as person remitting money.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that the school treasurer and person turning in money cannot be the same person.

Cause – Oversight.

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

Recommendation – The person remitting money and the school treasurer should not be the same person.

Response – The school will comply with the recommendation.

- II. **Condition** – Cash receipts testing of a randomly chosen sample revealed three instances of Multiple Receipt Forms not being signed by students when money is collected by teachers/sponsors.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that Multiple Receipt forms shall be used and signed by students when money is collected by teachers/sponsors.

Cause – Oversight.

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

Recommendation – The Multiple Receipt Form should be used with the students signing the form when money is collected by teacher/sponsor.

Response – The school will comply with the recommendation.

**LYON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 20121**

LYON COUNTY HIGH SCHOOL

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

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that all money collected by a teacher/sponsor shall be given to the school treasurer on the day collected.

Cause – Oversight.

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

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

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, 2012**

LYON COUNTY MIDDLE SCHOOL

- I. **Condition** – Cash disbursements testing of a randomly chosen sample revealed three instances of purchase order dated after check date.

Recommendation – All purchase orders should be dated and approved before the check is written.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2012.

- II. **Condition** – Cash disbursements testing of a randomly chosen sample revealed three instances of receipts not being deposited in a timely manner.

Recommendation – All monies collected should be deposited in a timely manner according to Red Book procedures.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2012.

- III. **Condition** – Transfer Forms are not used when transferring amounts between individual activity funds.

Recommendation – Transfer Forms should be used and signed by the sponsor and principal when amounts are transferred between activity funds.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2012.

LYON COUNTY HIGH SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed three instances of Multiple Receipt Forms not being signed by students when money is collected by teachers/sponsors.

Recommendation – All bank statements should be reviewed, initialed, and dated by the principal prior to reconciliation of account by bookkeeper.

Current Status – The finding was not repeated for the fiscal year ending June 30, 2012.