

**MONTGOMERY COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2013

Prepared by:

**WHITE & ASSOCIATES, PSC**  
CERTIFIED PUBLIC ACCOUNTANTS  
1407 Lexington Road  
Richmond, Kentucky 40475  
Phone (859) 624-3926 Fax (859) 625-0227

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2013

	<u>Page</u>
Independent Auditor’s Report .....	1-3
Management’s Discussion & Analysis (MD&A).....	4-8
Statement of Net Position.....	9
Statement of Activities.....	10
Balance Sheet-Governmental Funds.....	11
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund.....	16
Statement of Net Position – Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds.....	19
Statement of Fiduciary Net Position – Fiduciary Funds.....	20
Statement of Changes in Net Position – Fiduciary Funds.....	21
Notes to the Financial Statements.....	22-39

TABLE OF CONTENTS (CONTINUED)

**Supplemental Schedules**

Combining Balance Sheet – Nonmajor Governmental Funds .....	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	41
Combining Balance Sheet – School Activity and Private Purpose Trust Funds.....	42
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Private and Purpose Trust Funds.....	43
Statement of Revenues, Expenses, and Changes in Fund Balance – Montgomery County High School.....	44
Notes to the Schedule of Expenditures of Federal Awards.....	45
Schedule of Expenditures of Federal Awards.....	46-47
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	48-49
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	50-51
Schedule of Findings and Questioned Costs.....	52
Summary Schedule of Prior Audit Findings.....	53
Management Letter .....	54-57



## INDEPENDENT AUDITOR'S REPORT

To the Montgomery County Board of Education and  
State Committee for School District Audits  
Mt. Sterling, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Montgomery County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

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

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
YEAR ENDED June 30, 2013

As management of the School District of Montgomery County, 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, 2013. We encourage readers to consider the information presented here in conjunction within the body of the financial statements.

### **FINANCIAL HIGHLIGHTS**

- ❖ The beginning general fund balance for the district was \$9,836,046.
- ❖ General Fund decreased \$880,058 leaving an end of year fund balance to be \$8,955,988.
- ❖ The District’s outstanding debt, excluding KISTA debt payments, is \$42,696,000.
- ❖ The General Fund received \$34,112,768 in revenue, which primarily consisted of SEEK program, property, utility and motor vehicle taxes. This amount includes \$1,202,859 in approved transfers in from capital outlay, building, and construction funds. There was \$34,992,825 in general fund expenditures. This includes \$104,526 of transfers match KETS technology and community education.
- ❖ The majority of revenue was derived from state funding 68%, federal funding 9% and local and other funding making up 23% of the total revenue.
- ❖ The greater amount of revenue is spent on instruction expenditures. This makes up 60% of the general fund expenditures. The instruction function includes the site based decision making (SBDM) expenditures for staff and supplies. The student support services make up 4% which includes attendance services, guidance counseling, health services, psychological testing, speech, and hearing services. The instructional staff support makes up 4% which includes staff support personnel and librarians. The district administration support makes up 4% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent’s office expenses. The school administration support makes 5% which includes principals, high school/middle school guidance and secretary’s expenses. The business support services makes up 4% which includes the finance office and other central office expenditures. The plant operation and management, construction makes up 11%. The student transportation makes up 7%. Debt Service makes up 1%.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### **Government-wide financial statements.**

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

The statement of Net position presents information on all of the District’s assets plus deferred outflows

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
YEAR ENDED June 30, 2013

and liabilities plus deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in Net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

**Fund financial statements.**

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

**Notes to the financial statements.**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by \$ 33,434,484 for Governmental Activities and \$ 2,097,322 for Business Type Activities as of June 30, 2013.

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

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

**MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED June 30, 2013**

Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		School District		Total Percentage Change 2012-2013
	2012	2013	2012	2013	2012	2013	
<b>Revenues:</b>							
Charges for services	\$ 0.28	\$ 0.35	\$ 1.22	\$ 1.25	\$ 1.49	\$ 1.60	7%
Operating grants and contributions	12.88	4.94	1.74	1.83	14.62	6.77	-54%
Capital grants and contributions	2.83	2.13	-	-	2.83	2.13	-25%
General revenues	28.19	34.93	(0.07)	(0.13)	28.12	34.81	24%
<b>Total revenue</b>	<b>44.18</b>	<b>42.35</b>	<b>2.89</b>	<b>2.96</b>	<b>47.07</b>	<b>45.31</b>	<b>-4%</b>
<b>Expenses:</b>							
Instruction	\$ 25.07	\$ 24.19	0.00	-	\$ 25.07	\$ 24.19	-4%
Student	1.61	2.15	-	-	1.61	2.15	34%
Instructional staff	2.01	2.17	-	-	2.01	2.17	8%
District administration	1.18	1.51	-	-	1.18	1.51	28%
School administration	1.27	1.65	-	-	1.27	1.65	29%
Business	0.94	1.45	0.00	-	0.94	1.45	54%
Plant operation & maintenance	3.08	3.59	-	-	3.08	3.59	17%
Student transportation	2.15	2.43	-	-	2.15	2.43	13%
Adult Education	0.08	-	-	-	0.08	-	-100%
Other instructional	0.02	-	-	-	0.02	-	-100%
Community services operations	0.31	0.34	0.04	-	0.35	0.34	-5%
Loss on Retirement of Net Assets	0.05	0.02	0.00	-	0.05	0.02	-62%
Depreciation/Amortization	2.78	2.66	0.14	0.14	2.92	2.80	-4%
Interest on long-term debt	2.01	1.22	-	-	2.01	1.22	-39%
Food Service Operations	-	-	2.23	2.86	2.23	2.86	28%
Extraordinary item	-	0.73	-	-	-	-	-
Daycare Operations	-	-	0.48	0.44	-	-	-
<b>Total Expenses</b>	<b>\$ 42.56</b>	<b>\$ 44.11</b>	<b>\$ 2.90</b>	<b>\$ 3.44</b>	<b>\$ 45.46</b>	<b>\$ 47.55</b>	<b>5%</b>
<b>Change in net position</b>	<b>\$ 1.62</b>	<b>\$ (1.76)</b>	<b>\$ (0.01)</b>	<b>\$ (0.48)</b>	<b>\$ 1.61</b>	<b>\$ (2.24)</b>	<b>-239%</b>

**Net Position for the period ending June 30, 2012 as compared to June 30, 2013**

	2012	2013
Current Assets	\$16,481,341	\$11,070,089
Noncurrent Assets	\$70,625,743	\$70,355,712
<b>Total Assets</b>	<b>\$87,107,084</b>	<b>\$81,425,801</b>
Deferred Outflows of Resources		
Loss for the difference in reacquisition and carrying value of refunding debt		\$421,707
Current Liabilities	\$3,839,094	\$2,868,283
Noncurrent Liabilities	\$43,894,595	\$43,447,418
<b>Total Liabilities</b>	<b>\$47,733,689</b>	<b>\$46,315,701</b>
Net Position		
Investment in capital assets	\$24,702,077	\$26,077,926
Restricted	\$4,331,158	\$2,024,735
Unrestricted	\$10,340,160	\$7,429,146
<b>Total Net Position</b>	<b>\$39,373,394</b>	<b>\$35,531,807</b>

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
 YEAR ENDED June 30, 2013

**Capital Assets**

At the end of fiscal 2013, the district had \$ 26 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net decrease (including additions and deductions) of \$ 1.4 million.

**Capital Assets at Year-End  
 (Net of Depreciation, in Millions)**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
	Land	\$ 3.63	\$ 3.63			\$ 3.63
Buildings & Improvements	\$ 47.92	\$ 62.21	\$ 1.03	\$ .97	\$ 48.95	\$ 63.18
Technology Equipment	\$ 1.10	\$ .83	\$ .01	\$ .00	\$ 1.11	\$ .83
Vehicles	\$ 1.23	\$ 1.94	\$ .02	\$ .01	\$ 1.25	\$ 1.96
General Equipment	\$ .25	\$ .22	\$ .60	\$ .52	\$ .85	\$ .75
Construction in Progress	\$ 14.83	\$ 0	\$ 0	\$ 0	\$ 14.83	\$ 0
<b>Totals</b>	<b>\$ 68.97</b>	<b>\$ 68.85</b>	<b>\$ 1.65</b>	<b>\$ 1.5</b>	<b>\$ 70.63</b>	<b>\$ 70.35</b>

**Debt**

**Outstanding Debt at Year-End  
 (in Millions)**

	Government Activities	
	2012	2013
General Obligation Bonds	\$ 44.60	\$ 42.7
Capital Lease Obligations	\$ 1.33	\$ 2.0
<b>Total Obligations</b>	<b>\$ 45.93</b>	<b>\$ 44.70</b>

**MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2013**

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2013, for selected funds.

**Revenue & Expenditures by Fund**

<b>Revenue</b>	General Fund	Special Revenue	Capital Outlay/FSPK	Construction	Debt	Food Serv/ChildCare
Local/Other	\$ 7,564,073	\$ 16,502	\$ 2,173,230	\$ 5,867	\$ 46,054	\$ 1,256,857
State	\$25,206,764	\$ 1,365,327	\$1,978,219		\$ 153,875	\$ 239,848
Federal	\$ 112,853	\$ 3,573,950				\$ 1,966,042
Transfers/Other	\$ 1,229,078	\$ 104,526			\$3,422,179	
<b>Total</b>	<b>\$34,112,767</b>	<b>\$ 5,060,305</b>	<b>\$4,151,449</b>	<b>\$5,867</b>	<b>\$3,622,108</b>	<b>\$3,462,747</b>

<b>Expenditure</b>	General Fund	Special Revenue	Capital Outlay/FSPK	Construction	Debt	Food Serv/ChildCare
Instruction	\$20,925,557	\$ 3,155,811				
Student Support	\$ 1,370,539	\$ 784,259				
Instruct. Staff	\$ 1,385,987	\$ 786,283				
District Admin	\$ 1,512,182	\$ 945				
School Admin	\$ 1,645,496					
Business Supp.	\$ 1,422,199	\$ 29,796				
Plant Op/Maint	\$ 3,797,145					
Transportation	\$ 2,427,338					
Food Service						\$ 3,439,332
Community Srv	\$ 36,413	\$ 299,186				
Archit./Engin.				\$35,287		
Building Acquis.				\$2,171,660		
Escrow Agent						
Deprecation						
Debt Service	\$ 365,444				3,043,534	
Transfers	\$ 104,526	\$ 4,027	\$ 4,442,859	\$ 48,473		\$ 129,679
Other						\$372,673

**FUTURE BUDGETARY IMPLICATIONS**

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. Significant action that impacts the finances includes an increase in matching County Employees Retirement Rates, the legislative change to charge general fund a percentage of Kentucky Teachers Retirement for all certified employees, budgeting revenues based on trends vs KDE suggested trends, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives such as full day Kindergarten programs.

Questions regarding this report should be directed to Joshua Powell, Superintendent or Angela Rhodes, Financial Manager at 859-497-8760 or by mail at 640 Woodford Drive, Mt. Sterling, KY 40353.

Montgomery County School District  
**Statement of Net Position**  
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,376,501	\$ 327,463	\$ 2,703,965
Investments	7,028,351		7,028,351
Receivables (net)	1,077,372	215,243	1,292,615
Inventories		44,227	44,227
Prepaid assets	932		932
Capital assets:			
Land, improvements, and construction in progress	3,181,865		3,181,865
Other capital assets, net of depreciation	65,663,458	1,510,389	67,173,848
Total capital assets	68,845,323	1,510,389	70,355,712
Total assets	79,328,479	2,097,322	81,425,801
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	421,707		421,707
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	53,907		53,907
Accrued interest payable	292,388		292,388
Other current liabilities	28,068		28,068
Unearned revenue	159,451		159,451
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,960,000		1,960,000
Capital lease obligations	374,469		374,469
Total due within 1 year	2,334,469	-	2,334,469
Due in more than 1 year:			
Bond obligations	40,736,000		40,736,000
Capital lease obligations	1,629,024		1,629,024
KSBIT payable	733,889		733,889
Sick leave	348,505		348,505
Total due in more than 1 year	43,447,418	-	43,447,418
Total liabilities	46,315,701	-	46,315,701
<b>NET POSITION</b>			
Net Investment in capital assets	24,567,537	1,510,389	26,077,926
Restricted for:			
Nonexpendable restricted debt service	1,121,536		1,121,536
Expendable restricted capital projects	164,206		164,206
Expendable restricted site based carryforwards	77,268		77,268
Expendable restricted day care operations		130,012	130,012
Expendable restricted sick leave	74,792		74,792
Expendable restricted food service		456,921	456,921
Unrestricted	7,429,146		7,429,146
Total net position	\$ 33,434,484	\$ 2,097,322	\$ 35,531,807

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Activities**  
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 24,188,848	\$ 186,535	\$ 3,309,316	\$ -	\$ (20,692,997)		\$ (20,692,997)
Support Services							
Student	2,154,797	162,264	246,964		(1,745,569)		(1,745,569)
Instructional Staff	2,172,270		246,964		(1,925,306)		(1,925,306)
District Administration	1,513,127		197,571		(1,315,556)		(1,315,556)
School Administration	1,645,496		197,571		(1,447,925)		(1,447,925)
Business	1,451,995		148,178		(1,303,816)		(1,303,816)
Plant Operation & Maintenance	3,593,634		395,142	1,978,219	(1,220,273)		(1,220,273)
Student Transportation	2,427,338		148,178		(2,279,159)		(2,279,159)
Community Services Operations	335,599		49,393		(286,206)		(286,206)
Loss on retirement of assets	19,419				(19,419)		(19,419)
Amortization	48,362				(48,362)		(48,362)
Depreciation	2,607,261				(2,607,261)		(2,607,261)
Interest on general long-term debt	1,220,495			153,875	(1,066,620)		(1,066,620)
Total governmental activities	<u>43,378,640</u>	<u>348,800</u>	<u>4,939,277</u>	<u>2,132,094</u>	<u>(35,958,469)</u>		<u>(35,958,469)</u>
Business-type activities:							
Food service operations	3,169,070	864,127	2,080,539			\$ (224,404)	(224,404)
Student activities		1,437				1,437	1,437
Depreciation	141,049					(141,049)	(141,049)
Community operation	501,885	387,808	125,351			11,274	11,274
Total business-type activities	<u>3,812,004</u>	<u>1,253,372</u>	<u>2,205,890</u>	<u>-</u>	<u>-</u>	<u>(352,742)</u>	<u>(352,742)</u>
Total primary government	\$ <u>47,190,644</u>	\$ <u>1,602,172</u>	\$ <u>7,145,167</u>	\$ <u>2,132,094</u>	<u>(35,958,469)</u>	<u>(352,742)</u>	<u>(36,311,211)</u>
General revenues:							
Taxes:							
Property taxes					6,498,049		6,498,049
Motor vehicle taxes					627,831		627,831
Utility taxes					2,193,877		2,193,877
Revenue in lieu of taxes					120,437		120,437
State and formula grants					25,206,764		25,206,764
Unrestricted investment earnings					129,587	3,485	133,072
Sale of equipment					26,218		26,218
Transfers					129,679	(129,679)	-
Total general revenues and transfers					<u>34,932,441</u>	<u>(126,195)</u>	<u>34,806,247</u>
Extraordinary item					(733,889)		(733,889)
Total general revenues, transfers, and extraordinary items					<u>34,198,552</u>	<u>(126,195)</u>	<u>34,072,358</u>
Change in net position					(1,759,917)	(478,937)	(2,238,854)
Net position - beginning					36,797,135	2,576,259	39,373,394
Prior period adjustment					(1,602,734)		(1,602,734)
Restated net position - beginning					<u>35,194,401</u>	<u>2,576,259</u>	<u>37,770,660</u>
Net position - ending					\$ <u>33,434,484</u>	\$ <u>2,097,322</u>	\$ <u>35,531,807</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2013

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,758,263	\$ -	\$ 143,106	\$ 1,121,536	\$ 21,100	\$ 3,044,005
Investments	7,028,351					7,028,351
Receivables, net						
Taxes-current	184,790					184,790
Taxes-delinquent	19,350					19,350
Accounts	43,604					43,604
Intergovernmental-federal	997	828,631				829,628
Prepaid	932					932
Total assets	9,036,286	828,631	143,106	1,121,536	21,100	11,150,659
<b>LIABILITIES</b>						
Accounts payable	52,230	1,677				53,907
Cash shortage		667,503				667,503
Other current liabilities	28,068					28,068
Unearned revenue		159,451				159,451
Total liabilities	80,298	828,631	-	-	-	908,929
<b>FUND BALANCE</b>						
Nonspendable	932					932
Restricted			143,106	1,121,536	21,100	1,285,742
Committed	152,059					152,059
Unassigned	8,803,929					8,803,929
Total fund balance	\$ 8,955,988	\$ -	\$ 143,106	\$ 1,121,536	\$ 21,100	\$ 10,241,730

See the accompanying notes to the financial statements.

Montgomery County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
June 30, 2013

<b>Total fund balance per fund financial statements</b>	\$	10,241,730
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		68,845,323
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the bonds.</p>		421,707
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(292,388)
Bonds payable		(42,696,000)
Capital lease payable		(2,003,493)
KSBIT payable		(733,889)
Noncurrent sick leave payable		(348,505)
		(348,505)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>33,434,484</b>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 4,182,716	\$ -	\$ -	\$ -	\$ 2,173,230	\$ 6,355,946
Delinquent	142,103					142,103
Motor vehicle	627,831					627,831
Utilities	2,193,877					2,193,877
Revenue in lieu of taxes	120,437					120,437
Earnings on investments	77,249	417	5,867	46,054		129,587
Tuition	36,928					36,928
Student Activities		12,483				12,483
Other local revenue	182,933	3,602				186,535
Intergovernmental - state	25,206,764	1,365,327		153,875	1,978,219	28,704,185
Intergovernmental - federal	112,853	3,573,950				3,686,803
Total revenues	<u>32,883,690</u>	<u>4,955,779</u>	<u>5,867</u>	<u>199,929</u>	<u>4,151,449</u>	<u>42,196,715</u>
<b>EXPENDITURES</b>						
Instruction	20,925,557	3,155,811				24,081,368
Support Services						
Student	1,370,539	784,259				2,154,797
Instructional Staff	1,385,987	786,283				2,172,270
District Administration	1,512,182	945				1,513,127
School Administration	1,645,496					1,645,496
Business	1,422,199	29,796				1,451,995
Plant Operation & Maintenance	3,797,145					3,797,145
Student Transportation	2,427,338					2,427,338
Community Services Operations	36,413	299,186				335,599
Debt Service	365,444			3,043,534		3,408,978
Architectural Engineering			35,287			35,287
Building acquisition & construction			2,171,660			2,171,660
Total expenditures	<u>34,888,299</u>	<u>5,056,278</u>	<u>2,206,947</u>	<u>3,043,534</u>	<u>-</u>	<u>45,195,059</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(2,004,609)	(100,499)	(2,201,081)	(2,843,605)	4,151,449	(2,998,345)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment, buildings and land & improvements	17,502					17,502
Loss compensation of equipment, buildings and land & improvements	8,717					8,717
Operating transfers in	1,202,859	104,526		3,422,179		4,729,564
Operating transfers (out)	(104,526)	(4,027)	(48,473)		(4,442,859)	(4,599,885)
Total other financing sources and (uses)	<u>1,124,552</u>	<u>100,499</u>	<u>(48,473)</u>	<u>3,422,179</u>	<u>(4,442,859)</u>	<u>155,897</u>
<b>NET CHANGE IN FUND BALANCE</b>	(880,058)	-	(2,249,554)	578,574	(291,410)	(2,842,448)
<b>FUND BALANCE-BEGINNING</b>	<u>9,836,046</u>	<u>-</u>	<u>2,392,659</u>	<u>542,962</u>	<u>312,510</u>	<u>13,084,178</u>
<b>FUND BALANACE-ENDING</b>	<u>\$ 8,955,988</u>	<u>\$ -</u>	<u>\$ 143,106</u>	<u>\$ 1,121,536</u>	<u>\$ 21,100</u>	<u>\$ 10,241,730</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities**  
 Year ended June 30, 2013

<b>Net change in total fund balances per fund financial statements</b>	\$	(2,842,448)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		845,723
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		(48,362)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,224,173
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		(6,192)
<p>KSBIT payable extraordinary item</p>		(733,889)
<p>Noncurrent sick leave payable</p>		(198,922)
		(1,759,917)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>(1,759,917)</u></u></b>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 4,133,000	\$ 4,252,453	\$ 4,182,716	\$ (69,737)
Delinquent	175,000	190,000	142,103	(47,897)
Motor vehicle	520,000	625,000	627,831	2,831
Utilities	1,500,000	2,160,500	2,193,877	33,377
Revenue in lieu of taxes	203,519	182,519	120,437	(62,082)
Earnings on investments	45,000	87,000	77,249	(9,751)
Tuition	25,000	30,800	36,928	6,128
Other local revenue	152,000	187,000	182,933	(4,067)
Intergovernmental - state	19,562,604	18,701,725	* 18,696,689	(5,036)
Intergovernmental - federal	35,000	60,000	112,853	52,853
Total revenues	<u>26,351,123</u>	<u>26,476,997</u>	<u>26,373,616</u>	<u>(103,381)</u>
<b>EXPENDITURES</b>				
Instruction	17,928,492	16,823,448	* 15,976,729	846,719
Support Services				
Student	899,943	1,138,419	* 1,129,347	9,072
Instructional Staff	835,213	1,223,556	* 1,128,217	95,339
District Administration	1,891,464	1,446,156	* 1,409,612	36,544
School Administration	1,157,210	1,296,360	* 1,291,320	5,040
Business	1,218,585	1,345,062	* 1,276,998	68,064
Plant Operation & Maintenance	3,434,624	3,945,370	* 3,567,396	377,974
Student Transportation	2,032,379	2,337,762	* 2,201,263	136,499
Debt Service	317,995		365,444	(365,444)
Community Services Operations	13,642	51,241	* 31,900	19,341
Total expenditures	<u>29,729,547</u>	<u>29,607,374</u>	<u>28,378,225</u>	<u>1,229,149</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(3,378,424)	(3,130,377)	(2,004,609)	1,125,768
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of land & improvements			4,000	4,000
Loss compensation of land & improvements			3,396	3,396
Sale of buildings			5,156	5,156
Loss compensation of buildings			1,839	1,839
Sale of equipment	4,000	4,000	8,345	4,345
Loss compensation of equipment			3,482	3,482
Operating transfers in	73,672	1,142,825	1,202,859	60,034
Operating transfers out		(104,526)	(104,526)	-
Transfers in/(out) for debt service		(317,995)		317,995
Total other financing sources and (uses)	<u>77,672</u>	<u>724,304</u>	<u>1,124,552</u>	<u>400,248</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,300,752)	(2,406,073)	(880,058)	1,526,016
<b>FUND BALANCE-BEGINNING</b>	<u>9,897,117</u>	<u>9,761,255</u>	<u>9,836,046</u>	<u>74,792</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 6,596,365</u>	<u>\$ 7,355,181</u>	<u>\$ 8,955,988</u>	<u>\$ 1,600,807</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$6,510,074.

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Earnings on investments	\$ -	\$ 368	\$ 417	\$ 49
Student activities		6,638	12,483	5,845
Other local revenue		5,000	3,602	(1,398)
Intergovernmental - state	1,420,521	1,312,986	1,365,327	52,341
Intergovernmental - federal	2,933,913	3,667,900	3,573,950	(93,950)
Total revenues	<u>4,354,434</u>	<u>4,992,893</u>	<u>4,955,779</u>	<u>(37,114)</u>
<b>EXPENDITURES</b>				
Instruction	3,195,945	3,081,791	3,155,811	(74,020)
Support Services				
Student	389,061	935,576	784,259	151,317
Instructional Staff	440,883	706,256	786,283	(80,027)
District Administration		1,844	945	899
Business	2,645	31,400	29,796	1,604
Student Transportation		2,000		2,000
Community Services Operations	325,900	301,463	299,186	2,278
Total expenditures	<u>4,354,434</u>	<u>5,060,330</u>	<u>5,056,278</u>	<u>4,052</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	-	(67,437)	(100,499)	(33,062)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in		71,464	104,526	33,062
Operating transfers out		(4,027)	(4,027)	-
Total other financing sources and (uses)	<u>-</u>	<u>67,437</u>	<u>100,499</u>	<u>33,062</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2013

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Child Care Services</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 205,402	\$ 122,062	\$ 327,463
Inventories	44,227		44,227
Accounts receivable, net	207,292	7,951	215,243
Capital assets:			
Other capital assets, net of depreciation	1,510,109	280	1,510,389
<b>Total assets</b>	<b>1,967,030</b>	<b>130,292</b>	<b>2,097,322</b>
<b>NET POSITION</b>			
Net Investment in capital assets	1,510,109	280	1,510,389
Restricted for:			
Expendable restricted for child care		130,012	130,012
Expendable restricted for food service	456,921		456,921
<b>Total net position</b>	<b>\$ 1,967,030</b>	<b>\$ 130,292</b>	<b>\$ 2,097,322</b>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2013

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Proprietary Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 864,127	\$ -	\$ 864,127
Student activities		1,437	1,437
Community services		387,808	387,808
Total operating revenues	<u>864,127</u>	<u>389,245</u>	<u>1,253,372</u>
<b>OPERATING EXPENSES</b>			
Food service operations			
Salaries and benefits	1,082,919		1,082,919
Operational	2,086,150		2,086,150
Day care operations			
Salaries and benefits		433,543	433,543
Operational		68,342	68,342
Depreciation	140,969	80	141,049
Total operating expenses	<u>3,310,039</u>	<u>501,965</u>	<u>3,812,004</u>
Operating income (loss)	<u>(2,445,911)</u>	<u>(112,721)</u>	<u>(2,558,632)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	1,741,179	66,245	1,807,424
State grants	25,793		25,793
State on-behalf payments received	154,948	59,106	214,055
Donated commodities received	158,618		158,618
Transfers in (out)	(129,679)		(129,679)
Earnings from investments	3,485		3,485
Total nonoperating revenues	<u>1,954,344</u>	<u>125,351</u>	<u>2,079,695</u>
<b>CHANGE IN NET POSITION</b>	(491,567)	12,631	(478,937)
<b>NET POSITION-BEGINNING</b>	<u>2,458,598</u>	<u>117,662</u>	<u>2,576,259</u>
<b>NET POSITION-ENDING</b>	\$ <u><u>1,967,030</u></u>	\$ <u><u>130,292</u></u>	\$ <u><u>2,097,322</u></u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2013

	Enterprise Funds		
	School Food Services	Child Care Services	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 864,127	\$ 389,245	\$ 1,253,372
Payments to suppliers	(2,321,897)	(390,225)	(2,712,122)
Payments to employees	(1,082,919)	(127,448)	(1,210,368)
Net cash provided (used) by operating activities	(2,540,689)	(128,428)	(2,669,117)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants and contributions	2,080,539	125,351	2,205,890
Net cash provided (used) by noncapital financing activities	2,080,539	125,351	2,205,890
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(475)	0	(475)
Transfers	(129,679)		(129,679)
Net cash provided (used) by capital and related financing activities	(130,154)	0	(130,154)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	3,485	-	3,485
Net cash provided (used) by investing activities	3,485	-	3,485
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(586,820)	(3,077)	(589,897)
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	792,222	125,138	917,360
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	\$ 205,402	\$ 122,062	\$ 327,463
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>			
Operating income (loss)	\$ (2,445,911)	\$ (112,721)	\$ (2,558,632)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	140,969	80	141,049
Changes in assets and liabilities:			
Receivables	(206,512)	(7,951)	(214,463)
Inventories	(20,307)		(20,307)
Accrued liabilities	(8,927)	(7,837)	(16,764)
Net cash used by operating activities	\$ (2,540,689)	\$ (128,428)	\$ (2,669,117)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$154,948 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2013

	<b>School Activity Fund</b>	<b>Private Purpose Trust Fund</b>	<b>Fiduciary Fund Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 314,439	\$ 11,372	\$ 325,811
Accounts receivable, net	37,328	26,625	63,953
Investments	42,816	42,816	42,816
Total Assets	351,767	80,813	432,580
<b>LIABILITIES</b>			
Accounts payable	9,761	-	9,761
Due to student groups	342,006		342,006
Total Liabilities	351,767	-	351,767
<b>NET POSITION HELD IN TRUST</b>	\$ -	\$ 80,813	\$ 80,813

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
Year ended June 30, 2013

		<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Trust Activities	\$	139,031
Earnings on investments		148
Total Additions		<u>139,179</u>
<b>Deductions</b>		
Benefits paid		<u>96,082</u>
<b>Increase in net position</b>		43,097
<b>Net position, June 30, 2012</b>		<u>37,716</u>
<b>Net position, June 30, 2013</b>	\$	<u><u>80,813</u></u>

See the accompanying notes to the financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2013

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

Reporting Entity

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

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

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

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

Montgomery County Board Of Education Finance Corporation

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

Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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

#### SEEK Capital Outlay Fund

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

#### Building (FSPK) Fund

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

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

(B) Child Care Fund accounts for the funds raised at schools providing after school care for children.

The District applies all GASB pronouncements to proprietary funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### III. Fiduciary Fund Types

#### Agency Funds

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

The Private Purpose Trust Funds are maintained within MUNIS and account for revenues generated by trusts set up to benefit students in Montgomery County.

#### Basis of Accounting

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

### Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.494 per \$100 valuation of real property, \$.494 per \$100 valuation for business personal property and \$.424 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**Governmental Activities**

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

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

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

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### Cash and Cash Equivalents

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

### Inventories

On government-wide financial statements inventories are stated at cost and are expended when used.

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

### Prepaid Assets

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

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

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

Restricted Legally restricted under legislation, bond authority, or grantor contract.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

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

### Net Position

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

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – ESTIMATES**

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

**NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

Investments are CD’s deposited with various local banks that have a maturity date longer than ninety (90) days.

	<u>Bank Balance</u>		
	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 125,000	\$ 125,000	\$ 250,000
Securities pledged to district	11,250,941	7,663,348	18,914,289
	<hr/>		
Bank balance	\$ 11,375,941	\$ 7,788,348	\$ 19,164,289
	<hr/>		
	<u>Book Balance</u>		
	<u>Cash Equivalents</u>	<u>Investments</u>	
Governmental Activities	\$ 2,376,501	\$ 7,028,351	
Business-type Activities	327,463		
Agency funds			
Private Purpose Trust Fund	11,372	42,816	
School Activity Funds	314,439		
	<hr/>		
Total carrying amount	\$ 3,029,775	\$ 7,071,167	
	<hr/>		

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 3,633,803	\$ -	\$ -	\$ 3,633,803
Land improvements	4,412,389	176,578	-	4,588,967
Buildings	68,044,380	16,064,591	-	84,108,971
Technology equipment	3,182,591	91,442	158,177	3,115,857
Vehicles	3,798,465	970,503	222,385	4,546,583
Infrastructure	136,126	-	-	136,126
General equipment	3,514,352	26,933	19,625	3,521,660
Construction in progress	13,857,644	2,206,947	16,064,591	-
Total at historical cost	\$ <u>100,579,751</u>	\$ <u>19,536,994</u>	\$ <u>16,464,778</u>	\$ <u>103,651,968</u>
Less: Accumulated depreciation				
Land improvements	2,302,045	175,689	-	2,477,734
Buildings	22,225,584	1,780,614	-	24,006,198
Technology equipment	2,081,454	345,521	141,086	2,285,889
Vehicles	2,566,935	258,736	222,385	2,603,287
General equipment	120,194	2,448	-	122,642
Infrastructure	3,283,939	44,253	17,296	3,310,895
Total accumulated depreciation	\$ <u>32,580,151</u>	\$ <u>2,607,261</u>	\$ <u>380,767</u>	\$ <u>34,806,645</u>
Governmental Activities				
Capital Assets-net	\$ <u>67,999,600</u>	\$ <u>16,929,733</u>	\$ <u>16,084,010</u>	\$ <u>68,845,323</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Buildings	\$ 1,674,234	\$ -	\$ -	\$ 1,674,234
Technology equipment	26,835	475	-	27,310
Vehicles	45,252	-	-	45,252
General equipment	1,412,189	-	-	1,412,189
Total at historical cost	\$ <u>3,158,511</u>	\$ <u>475</u>	\$ <u>-</u>	\$ <u>3,158,986</u>
Less: Accumulated depreciation				
Buildings	656,540	48,138	-	704,677
Technology equipment	19,905	2,413	-	22,318
Vehicles	23,494	7,340	-	30,834
General equipment	807,608	83,158	-	890,766
Total accumulated depreciation	\$ <u>1,507,547</u>	\$ <u>141,049</u>	\$ <u>-</u>	\$ <u>1,648,596</u>
Business-Type Activities				
Capital Assets-net	\$ <u>1,650,964</u>	\$ <u>(140,574)</u>	\$ <u>-</u>	\$ <u>1,510,389</u>

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

**NOTE E – BONDED DEBT AND LEASE OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Montgomery County School District Finance Corporation aggregating \$42,696,000 and \$1,960,000 is the portion due within one year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
Issue of 2010 QSCB's	\$ 12,576,000	12/1/2027	5.875%	\$ 12,576,000	\$ -	\$ -	\$ 12,576,000
Issue of 2011R	8,260,000	4/1/2023	1.7 - 2.9%	8,190,000.00		135,000	8,055,000
Issue of 2007	2,550,000	9/1/2027	3.625-3.875%	2,355,000		75,000	2,280,000
Issue of 1995A	510,000	11/1/2016	3.6-5.5%	130,000		30,000	100,000
Issue of 2008	3,435,000	7/1/2028	3.0-3.5%	2,165,000		335,000	1,830,000
Issue of 2010 BAB's	4,425,000	12/1/2010	3.40 - 5.75%	4,360,000		65,000	4,295,000
Issue of 2005	8,090,000	12/1/2024	3.25-4.3%	6,570,000		360,000	6,210,000
Issue of 2006	3,990,000	10/1/2025	3.25-4%	3,385,000		150,000	3,235,000
Issue of 2003	13,515,000	10/1/2023	2-3.25%	2,110,000		675,000	1,435,000
Issue of 2007	\$ 3,030,000	9/1/2026	3.9%	2,755,000		75,000	2,680,000
Totals				\$ 44,596,000	\$ -	\$ 1,900,000	\$ 42,696,000

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal Rebate</u>		<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		
2014	\$ 1,832,299	\$ 1,020,121	\$ 127,701	\$ 24,843	\$ -	\$ 793,224	\$ 1,960,000	\$ 1,838,188
2015	1,894,177	956,724	140,823	20,651	-	792,451	2,035,000	1,769,826
2016	1,963,869	889,263	131,131	16,378	-	791,618	2,095,000	1,697,259
2017	2,020,161	834,493	109,839	13,234	-	790,725	2,130,000	1,638,453
2018	2,077,128	777,544	107,872	10,736	-	789,833	2,185,000	1,578,113
2019-2023	11,393,825	2,851,710	196,175	27,795	-	3,933,783	11,590,000	6,813,288
2024-2028	19,192,104	964,210	58,896	5,814	-	3,465,558	19,251,000	4,435,582
2029-2032	1,450,000	82,786	-	-	-	44,577	1,450,000	127,363
	<u>\$ 41,823,563</u>	<u>\$ 8,376,851</u>	<u>\$ 872,437</u>	<u>\$ 119,451</u>	<u>\$ -</u>	<u>\$ 11,401,769</u>	<u>\$ 42,696,000</u>	<u>\$ 19,898,071</u>

The 2010 “QSCB” bond is a Qualified School Construction Bond. The District is required to make annual payments that are placed into an escrow account. The escrow account is invested and accumulates interest which will retire the bond on December 1, 2027. As of June 30, 2013 the escrow account had accumulated \$1,121,536.

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$733,889. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE F – CAPITAL LEASE PAYABLE**

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

<u>KISTA Issue</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
Issue of 2006	3/1/2016	3.3-4%	\$ 87,072		\$ 22,660	\$ 64,412
Issue of 2006B	3/1/2017	3.5-3.875%	108,445		21,537	86,908
Issue of 2008	3/1/2018	3.0-3.75%	162,809		26,465	136,344
Issue of 2009R	12/1/2013	1-2%	156,500		76,932	79,568
2nd Issue of 2011	1/1/2011	1-3.6%	175,986		21,434	154,552
2nd Series of 2012	3/1/2022	.95-2.5%	-	380,170	44,385	335,785
First Series of 2013	3/1/2023	2.0%	-	618,696	-	618,696
Issue of 2003	3/1/2013	3.5-4.7%	17,046		17,046	-
Issue of 2003B	3/1/2014	2-3.9%	37,953		18,671	19,282
Issue of 2009	3/1/2019	2.0-3.9	230,426		31,673	198,753
Issue of 2009	3/1/2020	2.0-3.6%	215,621		25,681	189,940
1st Issue of 2010	7/1/2010	1-3.3%	63,309		7,597	55,712
1st Issue of 2011	1/1/2011	1-4%	72,499		8,958	63,541
<b>Totals</b>			<b>\$ 1,327,666</b>	<b>\$ 998,866</b>	<b>\$ 323,039</b>	<b>\$ 2,003,493</b>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ended</u>	<u>30-Jun</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$	374,469	\$ 50,637	\$ 425,106
2015		272,084	42,661	314,745
2016		263,129	35,667	298,796
2017		243,155	28,578	271,733
2018		222,101	21,903	244,004
2019-2023		628,555	36,794	665,349
	<b>\$</b>	<b>2,003,493</b>	<b>\$ 216,241</b>	<b>\$ 2,219,734</b>

Total minimum lease payments	\$	2,219,734
Less: Amount representing interest		(216,241)
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$</b>	<b>2,003,493</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE G – RETIREMENT PLANS

#### Kentucky Teachers' Retirement System

Plan Description – The Montgomery County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension 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 Kentucky Department of Education (KDE).

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 pension 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 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members hired before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution 14.105%.

#### Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional 1.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The Montgomery County School System’s total payroll for the year was \$25,891,946. The payroll for employees covered under KTRS was \$19,996,812. For the year ended June 30, 2013, the Commonwealth contributed \$2,385,264 to KTRS for the benefit of our participating employees. The School District’s contributions to KTRS for the year ending June 30, 2013 were \$305,535, which represents those employees covered by federal programs.

The District’s required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,996,334, \$2,899,818, and \$2,920,779 respectively.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$1,102,246 of the employee’s compensation during the fiscal year ended June 30, 2013.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,399,902, \$1,291,199, and \$1,206,058 respectively.

**NOTE H– COMMITMENTS**

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

<u>Purpose</u>		<u>Amount</u>
Site Based Decision Making Carry Forward	\$	77,268
Sick Leave	\$	74,792

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **NOTE I - CONTINGENCIES**

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

### **NOTE J - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

### **NOTE K – INSURANCE AND RELATED ACTIVITIES**

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

### **NOTE L – RISK MANAGEMENT**

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

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

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE M – DEFICIT FUND AND OPERATING BALANCES**

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (1,759,917)
Business-Type Activities	(478,937)
General Fund	(880,058)
Construction	(2,249,554)
FSPK	(291,410)
School Food Service	\$ (491,567)

**NOTE N - COBRA**

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

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Food Service Fund	General Fund	\$ 129,679	Indirect Costs
Special Revenue Fund	General Fund	4,027	Indirect Costs
Capital Outlay Fund	General Fund	415,399	Operating Expenses
General Fund	Special Revenue Fund	99,526	KETS
General Fund	Special Revenue Fund	5,000	Grant matching
Construction Fund	General Fund	48,473	Operating Expenses
FSPK Fund	General Fund	605,281	Operating Expenses
FSPK Fund	Debt Service Fund	\$ 3,422,179	Debt Service

**NOTE P – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Montgomery County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, School Food Services, and Day Care Funds. The amounts recorded for both revenues and expenditures (expenses) are \$6,510,074 for the General Fund, \$153,875 for Debt Service, \$154,948 for the School Food Service Fund, and \$59,106 for the Day Care Fund.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE Q – RESTRICTED FUNDS**

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 143,106	Future Construction
Debt Service	1,121,536	Debt Service Escrow
FSPK	\$ 21,100	School Facilities Construction Commission

**NOTE R – CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to Note S-Prior Period Adjustment to see how the change in accounting policy affects net position.

**NOTE S – PRIOR PERIOD ADJUSTMENT**

Due to GASB 65 and GASB 63 being implemented bond issue costs and bond discounts are no longer capitalized. The amount of these was \$627,555. Construction in progress was overstated by \$975,179 in the prior year. The cumulative effect on these to beginning net position is shown below:

Net Position July 1, 2012	\$ 36,797,135
Prior Period Adjustment	(1,602,734)
Restated Net Position July 1, 2012	<u>\$ 35,194,401</u>

**NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 21, 2013, the date the financial statements were available to be issued.

Montgomery County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ -	\$ 21,100	\$ 21,100
Total Assets	-	21,100	21,100
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts Payable	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Restricted	-	21,100	21,100
Total Fund Balances	-	21,100	21,100
Total Liabilities and Fund Balances	\$ -	\$ 21,100	\$ 21,100

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
For the year ended June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ -	\$ 2,173,230	\$ 2,173,230
Intergovernmental - State	415,399	1,562,820	1,978,219
Total Revenues	415,399	3,736,050	4,151,449
<b>Expenditures</b>			
Debt Service			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	415,399	3,736,050	4,151,449
<b>Other Financing Sources (Uses)</b>			
Transfers Out	(415,399)	(605,281)	(1,020,680)
Transfers In/(Out) for Debt Service		(3,422,179)	(3,422,179)
Total Other Financing Sources (Uses)	(415,399)	(4,027,460)	(4,442,859)
<b>Net Change in Fund Balances</b>	-	(291,410)	(291,410)
<b>Fund Balance Beginning</b>	-	312,510	312,510
<b>Fund Balance Ending</b>	\$ -	\$ 21,100	\$ 21,100

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Balance Sheet - School Activity and Private Purpose Trust Funds**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUNDS</b>							<b>PRIVATE PURPOSE TRUST FUND</b>	<b>FIDUCIARY FUND TOTAL</b>
	<b>MONTGOMERY CO HIGH SCHOOL</b>	<b>MONTGOMERY CO. INTERMEDIATE</b>	<b>McNABB MIDDLE SCHOOL</b>	<b>CAMARGO ELEMENTARY</b>	<b>MAPLETON ELEMENTARY</b>	<b>MT. STERLING ELEMENTARY</b>	<b>MT. STERLING CHARITABLE GAMING</b>		
<b>Assets</b>									
Cash and cash equivalents	\$ 158,368	\$ 8,161	\$ 41,289	\$ 32,107	\$ 49,655	\$ 23,107	\$ 1,752	\$ 11,372	\$ 325,811
Accounts receivable, net	35,176	44	-	2,107	-	-	-	26,625	63,953
Investments	-	-	-	-	-	-	-	42,816	42,816
<b>Total Assets</b>	<b>193,544</b>	<b>8,206</b>	<b>41,289</b>	<b>34,214</b>	<b>49,655</b>	<b>23,107</b>	<b>1,752</b>	<b>80,813</b>	<b>432,580</b>
<b>Liabilities</b>									
Accounts payable	4,359	2,416	-	-	2,986	-	-	-	9,761
<b>Total Liabilities</b>	<b>4,359</b>	<b>2,416</b>	<b>-</b>	<b>-</b>	<b>2,986</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,761</b>
<b>Fund Balance</b>									
School activities	\$ 189,185	\$ 5,790	\$ 41,289	\$ 34,214	\$ 46,669	\$ 23,107	\$ 1,752	\$ 80,813	\$ 422,819

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**- School Activity and Private Purpose Trust Funds**  
For the period ended June 30, 2013

	<b>SCHOOL ACTIVITY FUNDS</b>							<b>PRIVATE PURPOSE TRUST FUND</b>	<b>FIDUCIARY FUND TOTAL</b>
	<b>MONTGOMERY CO. HIGH SCHOOL</b>	<b>MONTGOMERY CO. INTERMEDIATE</b>	<b>MCNABB MIDDLE SCHOOL</b>	<b>CAMARGO ELEMENTARY</b>	<b>MAPLETON ELEMENTARY</b>	<b>MT. STERLING ELEMENTARY</b>	<b>MT. STERLING CHARITABLE GAMING</b>		
<b>Revenues</b>									
Student revenues	\$ 428,362	\$ 42,485	\$ 121,342	\$ 68,238	\$ 93,285	\$ 87,771	\$ 1,752	\$ 16,248	\$ 859,484
Earnings on investments						-	-	148	148
Contribution trusts								122,783	122,783
Total revenues	<u>428,362</u>	<u>42,485</u>	<u>121,342</u>	<u>68,238</u>	<u>93,285</u>	<u>87,771</u>	<u>1,752</u>	<u>139,179</u>	<u>982,414</u>
<b>Expenses</b>									
Student activities	433,403	36,696	145,511	55,396	84,445	101,915			857,365
Instruction								96,082	96,082
Total expenses	<u>433,403</u>	<u>36,696</u>	<u>145,511</u>	<u>55,396</u>	<u>84,445</u>	<u>101,915</u>	<u>-</u>	<u>96,082</u>	<u>953,446</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	(5,040)	5,790	(24,169)	12,843	8,840	(14,144)	1,752	43,097	28,968
<b>Fund Balance July 1, 2012</b>	<u>194,226</u>	<u>-</u>	<u>65,458</u>	<u>21,371</u>	<u>37,830</u>	<u>37,251</u>	<u>-</u>	<u>37,716</u>	<u>393,851</u>
<b>Fund Balance June 30, 2013</b>	<u>\$ 189,185</u>	<u>\$ 5,790</u>	<u>\$ 41,289</u>	<u>\$ 34,214</u>	<u>\$ 46,669</u>	<u>\$ 23,107</u>	<u>\$ 1,752</u>	<u>\$ 80,813</u>	<u>\$ 422,819</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Montgomery County High School**  
For the period ended June 30, 2013

	FUND BALANCE JULY 1, 2012	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2013
MUSICAL	\$ 7,129	\$ 26,247	\$ 21,946	\$ (448)	\$ 10,982
ANNUAL 2009-2010	7,425	585	4,862	-	3,148
AG-FARM	86,365	105,339	94,592	-	97,113
ART	3,880	640	967	-	3,553
ART CLUB	505	-	-	-	505
ATHLETICS	30,690	179,601	198,341	438	12,387
BAND	243	18,327	18,016	-	554
BETA	2,066	1,450	729	-	2,786
CHESS	-	291	248	-	43
CO-ED-Y	731	6,180	6,173	-	739
DECA	-	2,850	2,794	-	56
FCA	981	792	1,464	(200)	108
FEA	197	-	-	-	197
FFA	1,663	360	1,086	-	937
FCCLA	796	916	1,483	-	229
FRENCH	276	-	-	-	276
GENERAL	6,906	10,160	18,225	3,000	1,841
KIDS COUNT	5,502	387	675	-	5,215
MOCK TRIAL	415	3,775	2,408	-	1,782
FAMILY & CONSUMER	497	1,913	1,064	-	1,346
HORTICULTURE	485	-	-	-	485
JROTC	4,869	6,080	4,639	-	6,310
OPERATION DUSTIN GROSS	2,439	4,818	2,406	-	4,850
GUIDANCE	3,822	26,137	26,975	-	2,984
KEY CLUB	13	-	-	-	13
STLP	424	1,793	1,744	200	673
LIBRARY	1,687	1,387	2,130	270	1,213
MISC/VENDING	3,407	4,036	1,458	(3,000)	2,984
FACULTY VENDING	890	1,937	2,125	-	703
NEWSPAPER	760	-	109	-	651
ORCHESTRA	909	4,223	4,894	-	237
SPANISH	404	-	-	-	404
STUDENT COUNCIL	1,034	300	243	(550)	540
VOCAL MUSIC	2,810	1,182	2,488	-	1,504
VOCATIONAL AGRICULTURE	2,464	560	98	-	2,926
BOBBY J WHITAKER-SCHOLAR	4	-	-	-	4
RAIDER TEAM	255	-	-	-	255
CLASS 2015	636	2,850	485	200	3,201
CLASS OF 2012	694	-	625	-	69
ANNUAL 2010 - 11,2012-13	2,499	1,665	-	-	4,164
CLASS OF 2014	2,502	5,508	377	125	7,758
S.E.R.V.E.	173	(173)	-	-	-
TRI-M	246	-	-	-	246
CLASS OF 2013	3,101	3,664	5,139	175	1,800
MCHS BOOK CLUB	124	1,891	1,352	(260)	403
CLASS 2007	1,041	-	1,041	-	-
CLASS OF 2016	-	559	-	50	609
CLASS OF 2010	269	-	-	-	269
ENGINEERING CLUB	-	135	-	-	135
TOTALS	\$ 194,226	\$ 428,362	\$ 433,403	\$ (0)	\$ 189,185

See the accompanying notes to the financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2013

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$154,948.

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 13		510.4950	N/A	\$ 154,948
Passed through State Department of Education				
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 12		7750002 12	N/A	213,361
Fiscal Year 13		7750002 13	N/A	1,027,326
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 12		7760005 12	N/A	75,403
Fiscal Year 13		7760005 13	N/A	378,205
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7690024 12	N/A	4,386
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7740023 12	N/A	42,498
Child Nutrition Cluster Subtotal				<u>1,741,179</u>
<b>Child Care</b>	10.558			
Fiscal Year 12		7790021 12	N/A	2,785
Fiscal Year 13		7790021 13	N/A	6,170
				<u>8,955</u>
Total U.S. Department of Agriculture				<u>1,905,082</u>
U.S. Department of Education				
Passed through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 12		3100002 12	1,073,078	53,612
Fiscal Year 12D		3100002 12	122,435	12,256
Fiscal Year 12M		3100002 12	12,525	1,515
Fiscal Year 13		3100002 13	1,025,893	983,988
Fiscal Year 13D		3100002 13	180,578	158,061
Fiscal Year 13M		3100002 13	12,525	7,138
<b>Title I, School Improvement</b>	84.010A			
Fiscal Year 12		3100202 12	34,912	16,276
Fiscal Year 13E		3100202 13	99,236	99,236
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 12-Part D Funds		3100102 12	104,960	13,341
Fiscal Year 13-Part D Funds		3100102 13	129,130	90,214
Title I Subtotal				<u>1,435,636</u>
<b>Migrant Education-State Grant Programs</b>	84.011A			
Fiscal Year 12		3110002 12	319,553	147,884
Fiscal Year 13		3110002 13	312,230	246,613
				<u>394,497</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 12		3810002 12	894,420	321,839
Fiscal Year 13		3810002 13	910,967	614,464
<b>Special Education-E.C. Handicap Grant</b>	84.173A			
Fiscal Year 12		3800002 12	50,381	10,643
Fiscal Year 13		3800002 13	50,161	39,226
Special Education Cluster Subtotal				<u>986,172</u>
<b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 12A		4621132 12	1,124	1,124
Fiscal Year 13		4621132 13	30,242	30,242
				<u>31,366</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 12		3140002 12	100,161	1,666
Fiscal Year 13		3140002 13	88,538	78,490
				<u>80,156</u>
<b>TechPrep</b>	84.243			
Fiscal Year 13		4631180 13	74,705	74,705
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	1,028,147	7,237
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 12		3230002 12	217,440	1,170
Fiscal Year 13		3230002 13	214,828	159,534
				<u>160,704</u>
<b>Limited English Proficiency</b>	84.365			
Fiscal Year 12		3452	15,144	15,144
Fiscal Year 13		3453	21,910	12,268
				<u>27,412</u>

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
<b>Fund for the Improvement of Education-District Wide Counseling Grant</b>	84.215E			
Fiscal Year 12		5322	399,750	191,098
Fiscal Year 13		5323	399,750	100,475
				<u>291,573</u>
Passed through Morehead State University				
<b>Appalachian Higher Education Network</b>	23.011			
Fiscal Year 11		6881	5,000	636
Fiscal Year 12		6882	1,379	1,379
Fiscal Year 13		6883	3,621	3,621
				<u>5,636</u>
Passed through Workforce Development Cabinet				
<b>Adult Education State Grant Program</b>	84.002			
Fiscal Year 13-Community Based Work Transition		3713	16,125	16,125
				<u>16,125</u>
Total U.S. Department of Education				<u><u>3,511,218</u></u>
U.S. Department of Health and Human Services				
Passed through Gateway Community Services Organization, Inc.				
<b>Head Start</b>	93.600			
Fiscal Year 12		04CH0329	639,749	730
Passed through the Department of Community Based Services				
<b>Child Care</b>	93.596			
Fiscal Year 12		9999	83,500	66,245
Passed Through Kentucky School Board Association				
<b>Medical Assistance Program</b>	93.778			
Fiscal Year 13		110.4810	N/A	112,853
Total U.S. Department of Health and Human Service				<u><u>179,828</u></u>
U.S. Department of Defense				
<b>ROTC</b>	12.000			
Fiscal Year 13		5043	62,001	62,001
Total U.S. Department of Defense				<u><u>62,001</u></u>
Grand Totals of All Federal Programs				<u><u>\$ 5,658,130</u></u>

\* Major Programs

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

To the Montgomery County Board of Education and  
State Committee for School District Audits  
Mt. Sterling, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Montgomery County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School Districts' Audit Contract and Requirements or Appendices. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Montgomery County School District, in a separate letter dated October 21, 2013.

### **Purpose of this Report**

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

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

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

To the Montgomery County Board of Education and  
State Committee for School District Audits  
Mt. Sterling, Kentucky

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

We have audited Montgomery 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 Montgomery County School District's major federal programs for the year ended June 30, 2013. Montgomery County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Montgomery County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Montgomery County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

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

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

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

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

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2013

**SUMMARY OF AUDITOR’S RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings at the major federal award programs level.

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

There were no prior year findings.

## MANAGEMENT LETTER

Montgomery County School District  
Mt. Sterling, Kentucky

In planning and performing our audit of the financial statements of the Montgomery County School District for the year ended June 30, 2013, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Montgomery County School District. The conditions observed are as follows:

### CAMARGO ELEMENTARY

No conditions.

### MAPLETON ELEMENTARY

1-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Each person wishing to make a purchase will be required to prepare a purchase order which must be approved by the principal. After approval of the purchase order, a purchase order number shall then be issued so the purchase can be made. No purchases will be authorized without the proper purchase order being completed and receiving prior approval. Mapleton Elementary will also train faculty members on the procedures for purchasing items during opening day and a refresher will be completed during a faculty meeting.

### MT. STERLING ELEMENTARY

2-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Communicate to all teachers that money should be turned in on a daily basis. I will put a receive date on each receipt sheet and initial. Deposits will be made on daily basis. If deposit is held for less than \$100, I will note that on receipt sheet/deposit. All deposits will be verified by a second person.

McNABB MIDDLE SCHOOL

No conditions.

MONTGOMERY COUNTY HIGH SCHOOL

3-13

Statement of Condition: The Principal is not initialing and dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: MCHS has been initialing all bank statements since 7/1/12. MCHS will continue to initial all bank statements.

4-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: MCHS Administration will continue to provide teacher/sponsor's documented guidelines that ensure that all moines are to be deposited the day money is collected.

5-13

Statement of Condition: Checks written to "cash" or to the "bank" for change or start-up money.

Recommendation for Correction: All checks for start-up money or change shall be written to the athletic director, sponsor or responsible person.

Management Response to the Recommendation: MCHS has and is still currently having all cash start-up funds written out to the athletic director, sponsor or responsible person. MCHS will continue to enforce this protocols.

MONTGOMERY COUNTY INTERMEDIATE SCHOOL

6-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Beginning immediately, ALL deposits will be taken to the bank, regardless of the value.

### 7-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: While we provided teachers with a hard copy of the Redbook and a training over it this summer, the importance of reminding teachers to turn in money (however small in value) everyday is essential. Tomorrow, at our regularly-scheduled faculty meeting, this will be readdressed.

### 8-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Beginning immediately, I will date my signature on bank statements.

### 9-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: While this will not serve as an excuse, this finding is a direct reflection of me, as a brand new principal.

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

Conditions 1-13 and 2-13 are repeated prior year conditions. Mr. Joshua Powell, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
October 21, 2013