

**Muhlenberg County School
District**

Financial Statements

June 30, 2013



Muhlenberg County School District
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June 30, 2013

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Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

• Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Muhlenberg County School District (the "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 *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

- **Opinions**

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

- **Emphasis of Matter**

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to these matters.

- **Other Matters**

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 13 and 56 through 59 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our other records used to prepare the financial statements. The information has been audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and other 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 combining and individual nonmajor fund financial statements and other information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of Muhlenberg County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2013

Required Supplementary Information

Management's Discussion and Analysis

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2013**

As management of the Muhlenberg County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- In total, net position increased \$490,219, which includes a \$311,936 negative adjustment for the effect of the adoption of GASB 65. (See Note 1 to the financial statements for additional information.) Net position of governmental activities increased \$214,909 from fiscal year 2012. Net position of the business-type activity, which represents food service, increased \$275,310 from fiscal year 2012.
- General revenues accounted for \$48M in revenue or 79 percent of all revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$12.4M or 21 percent of total revenues of \$60.5M. General revenues were up 1M and the program specific revenues were up 112K.
- The Board had \$62.8M in total governmental expenses. This included \$6.8M in the construction fund. Compared to last year governmental expenses were \$71.4M in FY2012 while the construction fund expenses were \$15.6M.
- Total revenue was \$56.3M, a decrease of \$108K from FY 2012.
- Investment income was \$49K, a sharp decrease of \$206K, a reflection of the current interest rate environment.
- SEEK net general funding was \$20.5M, a slight decreased of 107K compared to the prior year. This was almost entirely due to the SEEK base decreasing from \$3,903 down to \$3,833.
- Total salary and benefit costs increased by \$1.5M from 2011-12, up to \$46.8M. This includes the state on-behalf amounts. On-behalf includes state provided health insurance and state retirement matches.
- Total general fund current operating expenses were \$47.4M increasing by \$1.5M from 2011-12, due primarily to the salary and retirement match increases.
- The General Fund ending balance was \$7.7M compared to \$11.7M the prior year, a \$4M decrease. The decrease can be primarily attributed to transfer of funds from the general fund to the construction fund for the new tech wing, shrinking state revenue, staff salary increases, and the exhaustion of Federal Stimulus funding. Contingency fund was budgeted at \$2.6M which is 4.8%. The state requires 2%.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS

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

District-Wide Financial Statements

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

The statement of net position presents information on all of the District's assets, deferred outflows of resources, and liabilities with the difference 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.

District-Wide Financial Statements

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 flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The district-wide financial statements can be found on pages 15 to 18 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of 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 daycare and food service operations. All other activities of the district are included in the governmental funds.

The basic government fund financial statements can be found on pages 19 through 24 of this report.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 54 of this report.

DISTRICT WIDE FINANCIAL ANALYSIS

The perspective of the statement of net position is of the District as a whole. The following table provides a summary of the District's net position for 2013 compared to 2012:

	2012	2013
Current assets	\$ 17,386,129	\$ 18,556,684
Noncurrent assets	<u>79,188,694</u>	<u>83,044,730</u>
Total assets	<u>\$ 96,574,823</u>	<u>\$ 101,601,414</u>
Deferred outflows of resources	<u>\$ 0</u>	<u>\$ 1,410,387</u>
Current liabilities	\$ 2,809,298	\$ 2,670,781
Noncurrent liabilities	<u>36,453,644</u>	<u>42,538,920</u>
Total liabilities	<u>\$ 39,262,942</u>	<u>\$ 45,209,701</u>
Net position		
Investment in capital assets - net of debt	\$ 44,151,311	\$ 47,319,790
Restricted	3,685,991	7,560,843
Unrestricted fund balance	<u>9,474,579</u>	<u>2,921,467</u>
Total net position	<u>\$ 57,311,881</u>	<u>\$ 57,802,100</u>

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$57,802,100 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.

Total net position increased \$490,219. Net position of the District's governmental activities increased \$214,909. The net position of the District's business-type activity increased \$275,310.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

DISTRICT WIDE FINANCIAL ANALYSIS (CONT'D)

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2012 and 2013.

	2012	2013
Revenues:		
Program Revenues		
Charges for services	\$ 1,155,796	\$ 1,000,467
Operating Grants and Contributions	8,024,898	6,995,540
Capital Grants and Contributions	3,119,054	4,416,105
General Revenue		
Taxes	\$ 6,830,451	\$ 7,929,527
Other local government units (TVA)	9,892,171	10,076,495
Other taxes	137,315	190,867
State Aid	28,981,120	29,024,915
Investment Earnings	241,619	43,463
Other Revenue	898,754	831,733
Transfers	61,496	0
Total Revenue	<u>59,342,674</u>	<u>60,509,112</u>
Expenses:		
Instructional	35,781,944	36,893,456
Student Support	1,512,152	1,878,116
Instructional Support	1,386,448	1,021,364
District Administration	1,326,569	1,605,281
School Administration	2,322,497	2,309,518
Business Support	1,442,199	1,446,627
Plant Operation & Maintenance	5,623,164	4,956,458
Student Transportation	4,226,266	4,388,066
Other	571,431	541,133
Debt Services	1,354,883	1,276,933
Food Services-Govt	28,799	78,074
Food Services	2,922,895	2,947,884
Day Care	329,897	304,292
Community Education	1,450	555
Bond issuance cost		59,200
Total Expenses	<u>58,830,594</u>	<u>59,706,957</u>
Excess of revenue over expenditures	<u>\$512,080</u>	<u>\$802,155</u>

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

BUSINESS-TYPE ACTIVITY

The major business-type activity of the District is the food service operation. This program had revenues of \$3.2M and expenses of \$2.9M for fiscal year 2013. The food service operation is self-operating without assistance from the General Fund. The business activity receives no support from tax revenues and continues to be fiscally sound while student lunch prices are among the lowest in the region.

THE DISTRICT'S FUNDS

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$69.5M and expenditures and other financing uses of \$69.8M. Included in the \$69.8M is \$6.8M in construction fund expenditures. The General Fund balance decreased \$4M. This was primarily due to construction fund transfer for the new tech wing.

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$2.5M in contingency (4.8 percent). The beginning fund balance for the fiscal year was \$11,720,838. The most significant budgeted fund is the General Fund.

During the course of fiscal 2013, the District amended its General Fund budget as needed. The District uses a centralized budget. The budgeting system is designed to control budgets but allow flexibility for management.

For the General Fund, actual revenues and other financing sources, including state on-behalf payments were \$47.5M. Budgeted revenues were \$37.9M. The continued poor economy has had negative effects on the primary revenue sources to the district-- state SEEK, TVA in lieu, local taxes, and state and federal grants. Note that the budgeted revenues do not include on-behalf while the actual revenues do, which accounts for \$10M of the difference.

Original general fund budgeted expenditures were \$41.2M, excluding on-behalf payments made by the State of Kentucky. Actual expenditures were \$47.4M. Note the main reason the District appears over budget is due to on-behalf included in the actuals. The District recorded on-behalf payments in FY2013 totaling \$8.8M (10.5M for all funds) as required by KDE. These revenues and expenditures are not budgeted and do not run directly through the Muhlenberg County School District financial system. These payments are made on behalf of the Muhlenberg County School District by the Commonwealth of Kentucky for employee health insurance, Teachers' Retirement, Vocational Education, and school Facilities Construction Commission (SFCC) offers of assistance. The on-behalf amounts are accounted for once the state provides that info to us after June 30th.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets for governmental activities ended at \$82.6M and Capital assets in business-type activities ended at approximately \$476K.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)

Debt

At June 30, 2013, the District had \$55.1M (principal and interest) in outstanding bonds. This amount does include an estimated \$2.2M that the federal government will pay thru the build America bond series. Bond payments are primarily paid from the Capital Outlay and Building funds. The district paid \$3.5M (including federal rebate) for bond payments for FY 2013. However, this includes \$1.3M from the state for on-behalf paid through the SFCC.

During FY 2013 the District's bond activity was \$1.1M for the energy performance project (district wide) and \$6M for the new tech wing at the West campus.

CURRENT ISSUES

Total local generated property taxes increased from \$6.8M to \$7.9M from last fiscal year to FY 2013. The increase is primarily due to a state settlement on back franchise taxes that were on appeal from the Texas Gas company. Fluctuations in franchise taxes are not uncommon due to appeals and valuations at the state level. The real estate market was steady holding at \$5.4M. Motor vehicle assessments increased over 5% to \$966K. Enrollment remained steady at 5,013. Looking ahead, enrollment numbers are projected to remain stable as they have over the past five years.

The District remains committed to increasing staff salaries and responding to the competitive educational environment. The beginning teacher salary was increased to \$36,455 while the top end of the 187 day salary schedule for teachers stands at \$58,697. Employee contracts were reduced from 187 days to 185 days for FY2013. The 1% payroll increase compared to the 2 day loss was a wash. Muhlenberg County School District staff salaries still remain competitive in comparison to other Western Kentucky school districts. Staff retention and stability are good across all employee categories and are competitive with neighboring districts. Applicants for all job categories are more plentiful than in recent years. Attrition will likely be looked at during the next fiscal year due to budget concerns. State revenue projections continue to look very bleak and will require that the budget be closely monitored and new initiatives will be closely reviewed. In preparation, the contingency balance was set at \$1.8M. The district is always reviewing for cost savings in transportation, administration, facility maintenance and energy. Debt refinancing is always monitored as some issues mature. At the same time, services and supports have been continued at the schools. This will change if state budget cuts continue. The District will be closely monitoring ways to save money over the next fiscal year due to the general fund balance dropping significantly.

There has been a concerted focus on investing in capital construction considering the age and size of our facilities. The construction to replace Bremen Elementary school was completed at the end of FY2012, as well as the West Campus Sports Complex. The district's next top construction priority is the new Tech Wing at the West Campus projected to be at a cost of \$12M. Construction was well under way before the close of FY2013. Estimated occupation is August 2014. This will likely be the District's last construction project for a while due to available funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Mr. Jeff Travis, Treasurer, at 270-338-2871, or by mail at 510 W. Main St., Powderly, KY 42367.

Basic Financial Statements

Muhlenberg County School District
Statement of Net Position

June 30, 2013	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,450,839	\$ 570,712	\$ 3,021,551
Investments	12,884,560	-	12,884,560
Accounts receivable:			
Taxes	483,379	-	483,379
Accounts	820	-	820
Intergovernmental	562,130	172,427	734,557
Pledge receivable	1,200,000	-	1,200,000
Inventory	166,991	57,357	224,348
Prepaid expenses	7,469	-	7,469
Nondepreciable capital assets	5,936,644	-	5,936,644
Depreciable capital assets	113,119,313	1,634,311	114,753,624
Less: accumulated depreciation	(36,487,476)	(1,158,062)	(37,645,538)
Total assets	100,324,669	1,276,745	101,601,414
Deferred Outflows of Resources			
Deferred amount on debt refundings	1,410,387	-	1,410,387
Total deferred outflows of resources	1,410,387	-	1,410,387
Liabilities			
Accounts payable	2,003,500	370	2,003,870
Accrued liabilities	98,613	-	98,613
Unearned revenue	323,888	-	323,888
Accrued interest	244,410	-	244,410
Long-term obligations:			
Due within one year:			
Outstanding bonds	2,396,004	-	2,396,004
Compensated absences	865,475	12,658	878,133
Due beyond one year:			
Outstanding bonds	38,502,266	-	38,502,266
Compensated absences	755,735	6,782	762,517
Total liabilities	45,189,891	19,810	45,209,701

June 30, 2013	Governmental Activities	Business-Type Activities	Total
Net Position			
Invested in capital assets, net of related debt	46,843,541	476,249	47,319,790
Restricted for:			
Capital projects	7,560,843	-	7,560,843
Unrestricted	2,140,781	780,686	2,921,467
Total Net Position	\$ 56,545,165	\$ 1,256,935	\$ 57,802,100

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Activities

Year Ended June 30, 2013	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 36,893,456	\$ 18,824	\$ 3,655,862	\$ 292,554	\$ (32,926,216)	\$ -	\$ (32,926,216)
Support services:							
Student	1,878,116	-	48,133	-	(1,829,983)	-	(1,829,983)
Instructional staff	1,021,364	-	25,053	-	(996,311)	-	(996,311)
District administration	1,605,281	-	-	-	(1,605,281)	-	(1,605,281)
School administration	2,309,518	-	101,634	-	(2,207,884)	-	(2,207,884)
Business	1,446,627	-	222,075	-	(1,224,552)	-	(1,224,552)
Plant operations and maintenance	4,956,458	1,880	28,025	-	(4,926,553)	-	(4,926,553)
Student transportation	4,388,066	-	185,843	-	(4,202,223)	-	(4,202,223)
Other	541,133	-	418,954	-	(122,179)	-	(122,179)
Food service operation	78,074	-	-	-	(78,074)	-	(78,074)
Site improvement	-	-	-	148,494	148,494	-	148,494
Interest on long-term debt	1,276,933	-	-	3,743,686	2,466,753	-	2,466,753
Bond issuance cost	59,200	-	-	-	(59,200)	-	(59,200)
Total governmental activities	56,454,226	20,704	4,685,579	4,184,734	(47,563,209)	-	(47,563,209)
Business-Type Activities:							
Food services	2,947,884	720,229	2,264,743	231,371	-	268,459	268,459
Community education	555	460	-	-	-	(95)	(95)
Day care	304,292	259,074	45,218	-	-	-	-
Total business-type activities	3,252,731	979,763	2,309,961	231,371	-	268,364	268,364
Total School District	\$ 59,706,957	\$ 1,000,467	\$ 6,995,540	\$ 4,416,105	(47,563,209)	268,364	(47,294,845)

General Revenues			
Taxes:			
Property	5,174,891	-	5,174,891
Motor vehicle	966,132	-	966,132
Unmined minerals	145,169	-	145,169
Franchise tax	1,643,335	-	1,643,335
Revenue in lieu of taxes	10,076,495	-	10,076,495
Other	190,867	-	190,867
State aid	29,024,915	-	29,024,915
Investment earnings	37,340	6,123	43,463
Other	831,026	707	831,733
Transfers	(116)	116	-
<hr/>			
Total general revenues and transfers	48,090,054	6,946	48,097,000
<hr/>			
Change in Net Position	526,845	275,310	802,155
Net Position - Beginning of Year	56,330,256	981,625	57,311,881
<hr/>			
Effect of Adoption of GASB 65	(311,936)	-	(311,936)
<hr/>			
Net Position - Beginning of Year, as restated	56,018,320	981,625	56,999,945
<hr/>			
Net Position - End of Year	\$ 56,545,165	\$ 1,256,935	\$ 57,802,100
<hr/> <hr/>			

See accompanying notes to the financial statements.

Muhlenberg County School District
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 50,861	\$ -	\$ 2,026,050	\$ 373,928	\$ 2,450,839
Investments	7,005,477	-	5,879,083	-	12,884,560
Accounts receivable:					
Taxes	483,379	-	-	-	483,379
Accounts	-	-	820	-	820
Intergovernmental	-	562,130	-	-	562,130
Due from other funds	221,660	-	-	-	221,660
Inventory	166,991	-	-	-	166,991
Prepaid expenses	7,469	-	-	-	7,469
Total Assets	\$ 7,935,837	\$ 562,130	\$ 7,905,953	\$ 373,928	\$ 16,777,848

Liabilities and Fund Balances

Liabilities										
Accounts payable	\$	137,868	\$	16,582	\$	1,846,550	\$	2,500	\$	2,003,500
Accrued liabilities		98,613		-		-		-		98,613
Due to other funds		-		221,660		-		-		221,660
Unearned revenue		-		323,888		-		-		323,888
Total liabilities		236,481		562,130		1,846,550		2,500		2,647,661
Fund Balances										
Nonspendable		174,460		-		-		-		174,460
Restricted		3,692,955		-		6,059,403		371,428		10,123,786
Assigned		140,558		-		-		-		140,558
Unassigned		3,691,383		-		-		-		3,691,383
Total fund balances		7,699,356		-		6,059,403		371,428		14,130,187
Total Liabilities and Fund Balances	\$	7,935,837	\$	562,130	\$	7,905,953	\$	373,928	\$	16,777,848

**Muhlenberg County School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position**

June 30,	2013
Total Fund Balances - Governmental Funds	\$ 14,130,187
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$119,055,957 and the accumulated depreciation is \$36,487,476.	82,568,481
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow.	1,410,387
Certain long-term assets are not reported in the governmental funds because they are not available to pay current period expenditures, but they are reported in the statement of net position.	1,200,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:	
Bonds payable	(40,898,270)
Accrued interest on outstanding bonds	(244,410)
Compensated absences	(1,621,210)
Total Net Position - Governmental Activities	\$ 56,545,165

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2013	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 4,409,642	\$ -	\$ -	\$ 765,249	\$ 5,174,891
Motor vehicle	966,132	-	-	-	966,132
Unmined minerals	145,169	-	-	-	145,169
Franchise tax	1,643,335	-	-	-	1,643,335
Revenue in lieu of taxes	10,076,495	-	-	-	10,076,495
Other	190,867	-	-	-	190,867
Earnings on investments	37,340	3,143	8,701	-	49,184
Other local revenue	860,478	-	200,000	-	1,060,478
Intergovernmental - state	29,024,915	1,607,627	-	2,694,819	33,327,361
Intergovernmental - federal	91,636	3,367,363	-	188,660	3,647,659
Total revenues	47,446,009	4,978,133	208,701	3,648,728	56,281,571

Expenditures

Current:

Instruction	30,269,261	4,059,716	-	-	34,328,977
Support services:					
Student	1,802,023	48,133	-	-	1,850,156
Instructional staff	993,983	25,053	-	-	1,019,036

District administration	1,580,343	-	-	-	1,580,343
School administration	2,211,662	101,634	-	-	2,313,296
Business	1,222,680	222,075	-	-	1,444,755
Plant operations and maintenance	4,862,221	28,025	-	-	4,890,246
Student transportation	4,230,072	185,843	-	-	4,415,915
Other	121,850	418,954	-	-	540,804
Food service operation	78,074	-	-	-	78,074
Debt service:					
Principal	-	-	-	2,315,235	2,315,235
Interest	-	-	-	1,157,606	1,157,606
Building acquisition and construction	-	-	5,717,222	-	5,717,222
Building improvements	-	-	1,070,646	-	1,070,646
Bond issuance costs	-	-	59,200	-	59,200
Total expenditures	47,372,169	5,089,433	6,847,068	3,472,841	62,781,511
Excess (Deficiency) of Revenues over Expenditures	73,840	(111,300)	(6,638,367)	175,887	(6,499,940)
Other Financing Sources (Uses)					
Bond proceeds	-	-	6,993,734	-	6,993,734
Operating transfers in	10,000	111,300	4,132,400	1,961,626	6,215,326
Operating transfers out	(4,105,322)	-	-	(2,110,120)	(6,215,442)
Total other financing sources (uses)	(4,095,322)	111,300	11,126,134	(148,494)	6,993,618
Net Change in Fund Balances	(4,021,482)	-	4,487,767	27,393	493,678
Fund Balances - Beginning of Year	11,720,838	-	1,571,636	344,035	13,636,509
Fund Balances - End of Year	\$ 7,699,356	\$ -	\$ 6,059,403	\$ 371,428	\$ 14,130,187

**Muhlenberg County School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities**

Year Ended June 30,	2013
Total Net Change in Fund Balances - Governmental Funds	\$ 493,678
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$7,301,651) exceeds depreciation expense (\$3,213,388) in the period.	4,088,263
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain (loss) from the sale net to this amount for the year.	(384)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,315,235
The issuance of a bond is shown as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(6,993,734)
Pledges receivable are not recognized in the governmental funds as they do not provide current financial resources. However, they are recognized in the government-wide funds.	700,000
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(76,213)
Change in Net Position - Governmental Activities	\$ 526,845

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Net Position
Proprietary Funds

June 30, 2013	Enterprise Fund Food Service	Other Enterprise Funds	Total
Assets			
Current Assets			
Cash	\$ 570,153	\$ 559	\$ 570,712
Accounts receivable:			
Intergovernmental	172,427	-	172,427
Inventory	57,357	-	57,357
Total current assets	799,937	559	800,496
Noncurrent Assets			
Fixed assets - net	476,249	-	476,249
Total assets	1,276,186	559	1,276,745
Liabilities			
Current Liabilities			
Accounts payable	195	175	370
Compensated absences	12,658	-	12,658
Total current liabilities	12,853	175	13,028
Long-Term Liabilities			
Compensated absences	6,782	-	6,782
Total long-term liabilities	6,782	-	6,782
Net Position			
Invested in capital assets, net of related debt	476,249	-	476,249
Unrestricted	780,302	384	780,686
Total Net Position	\$ 1,256,551	\$ 384	\$ 1,256,935

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service	Other Enterprise Funds	Total
Operating Revenues			
Lunchroom sales	\$ 720,229	\$ -	\$ 720,229
Tuition and fees	-	259,534	259,534
Total operating revenues	720,229	259,534	979,763
Operating Expenses			
Salaries and wages	1,410,950	303,850	1,714,800
Contract services	19,309	-	19,309
Materials and supplies	1,455,955	442	1,456,397
Other operating expenses	1,400	555	1,955
Depreciation expense	57,484	-	57,484
Total operating expenses	2,945,098	304,847	3,249,945
Operating loss	(2,224,869)	(45,313)	(2,270,182)
Non-Operating Revenues (Expenses)			
State operating grants	235,797	45,218	281,015
Federal operating grants	1,881,511	-	1,881,511
Donated commodities	147,435	-	147,435
Interest revenue	6,123	-	6,123
Loss on disposal of assets	(2,786)	-	(2,786)
Other	707	-	707
Total non-operating revenues (expenses)	2,268,787	45,218	2,314,005
Income (loss) before capital contributions and transfers	43,918	(95)	43,823
Capital contributions	231,371	-	231,371
Transfers	-	116	116
Total capital contributions and transfers	231,371	116	231,487
Change in Net Position	275,289	21	275,310
Net Position - Beginning of Year	981,262	363	981,625
Net Position - End of Year	\$ 1,256,551	\$ 384	\$ 1,256,935

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from user charges	\$ 563,476	\$ 259,534	\$ 823,010
Cash payments to employees for services	(1,198,089)	(258,632)	(1,456,721)
Cash payments for contract services	(19,309)	-	(19,309)
Cash payments to suppliers for goods and services	(1,315,055)	(442)	(1,315,497)
Cash payments for other operating expenses	(1,400)	(380)	(1,780)
Net cash provided by (used in) operating activities	(1,970,377)	80	(1,970,297)
Cash Flows from Noncapital Financing Activities			
Operating transfer from the general fund	-	116	116
Nonoperating grants received	1,907,985	-	1,907,985
Other	707	-	707
Net cash provided by noncapital financing activities	1,908,692	116	1,908,808
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(19,217)	-	(19,217)
Net cash used in capital and related financing activities	(19,217)	-	(19,217)
Cash Flows from Investing Activities			
Interest on investments	6,123	-	6,123
Net cash provided by investing activities	6,123	-	6,123
Net Increase (Decrease) in Cash	(74,779)	196	(74,583)
Cash - Beginning of Year	644,932	363	645,295
Cash - End of Year	\$ 570,153	\$ 559	\$ 570,712

Year Ended June 30, 2013	Enterprise Fund Food Service	Other Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities			
Operating loss	\$ (2,224,869)	\$ (45,313)	\$ (2,270,182)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	57,484	-	57,484
On-behalf payments	209,323	45,218	254,541
Commodities used	147,435	-	147,435
Changes in assets and liabilities:			
Receivables	(156,753)	-	(156,753)
Inventories	(6,730)	-	(6,730)
Accounts payable	195	175	370
Accrued benefits	3,538	-	3,538
Net Cash Provided By (Used In) Operating Activities	\$ (1,970,377)	\$ 80	\$ (1,970,297)

Noncash Activities

- The food service fund received \$ 147,435 of donated commodities from the federal government.
- The District received on-behalf payments of \$ 254,541 relating to insurance benefits.
- The food service fund received a capital contribution of equipment from the general fund in the amount of \$ 231,371.

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Assets and Liabilities
Fiduciary Funds

June 30, 2013	Agency Funds
Assets	
Cash	\$ 664,163
Accounts receivable	570
Total Assets	\$ 664,733
 Liabilities	
Accounts payable	\$ 657
Due to other funds	44,151
Due to student groups	619,925
Total Liabilities	\$ 664,733

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

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

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

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units," the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements as a blended component unit:

Muhlenberg County School District Finance Corporation — The Muhlenberg County Board of Education resolved to authorize the establishment of the Muhlenberg County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Board Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board

Note 1: Summary of Significant Accounting Policies
(Continued)

members of the Muhlenberg County Board of Education also comprise the Corporation's Board of Directors.

• ***Basis of Presentation***

Government-Wide Financial Statements — The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations 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's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than

Note 1: Summary of Significant Accounting Policies
(Continued)

reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. 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:

▶ **Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. 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. This is a major fund of the District.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as capital outlay funds

Note 1: Summary of Significant Accounting Policies
(Continued)

and is restricted for use in financing projects identified in the District's facility plan and certain operating costs.

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

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

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

► **Proprietary Fund Types**

Enterprise Funds

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 contributions of commodities from the USDA. The school food service fund is a major fund.

The *Community Education Fund* is used to account for local community education activities.

The *Day Care Fund* is used to account for day care services offered to the general public.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Note 1: Summary of Significant Accounting Policies
(Continued)

▶ **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

Agency Funds

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

● **Basis of Accounting**

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

The records of the District and the budgetary process are based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

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

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally

Note 1: Summary of Significant Accounting Policies
(Continued)

recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

• ***Estimates***

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

• ***Investments***

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

• ***Inventory***

Inventory in the General Fund consists of transportation supplies. All other supplies and materials in the General Fund are charged to expenditures when purchased. Inventories are valued at cost using the first-in, first-out method.

Inventory in the Food Service Fund consists of food and supplies valued at cost and government commodities, whose value is determined by the U.S. Department of Agriculture.

• ***Capital Assets***

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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 \$5,000 with the exception of computer workstations and laptops for which there is a \$1,000 threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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:

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

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **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.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Compensated Absences***

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

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the funds from which the employees will be paid.

• ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

• ***Net Position***

The District classifies its net position into the following three categories:

Invested in capital assets - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Note 1: Summary of Significant Accounting Policies
(Continued)

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

• ***Revenues — Exchange and Nonexchange Transactions***

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in

Note 1: Summary of Significant Accounting Policies
(Continued)

which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

• ***Interfund Activity***

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

• ***Interfund Balances***

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

• ***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.

• ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through November 12, 2013, which was the date the financial statements were made available.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***New Accounting Pronouncements***

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position."

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has early implemented the new requirements of this statement for the fiscal year ended June 30, 2013. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of the adoption of GASB 65 is the reduction of beginning net position by \$311,936.

Note 1: Summary of Significant Accounting Policies
(Continued)

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

Note 2: Cash and Investments

• **Deposits**

At June 30, 2013, the carrying amounts of the District's cash and investments in deposits were \$4,722,794 and the bank balances were \$5,860,706 . Of the bank balances, \$5,403,494 were covered by federal depository insurance or by collateral held by the bank's agent in the District's name, and \$457,212 was uninsured and undercollateralized.

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

June 30,	2013
Governmental funds- investments	\$ 1,037,080
Governmental funds- cash	2,450,839
Proprietary funds	570,712
Fiduciary funds	664,163
	\$ 4,722,794

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

▶ *Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. At June 30, 2013, \$457,212 of the District's bank balance of \$5,860,706 was exposed to custodial credit risk.

● **Investments**

The District's investments, which are stated at cost, at June 30, 2013 are as follow:

June 30, 2013			
Investment	Rating	Maturities	Fair Value
CD	N/R	3/26/2014	\$ 1,037,080
PFM Governmental Pool	N/R	-	31,079
Money Market- federated prime value	N/R	On Demand	5,879,083
Chevron Corp Stock	N/R	-	160,705
Exxon Mobile Corp	N/R	-	423,290
Fed Home Ln Bk 5.7%	AAA	-	100,744
Fed Home Ln Mtg 2%	AAA	-	820,641
Money Market-Goldman Sachs Fin Square	N/R	-	337,806
Fed Nat Mtg Assoc 5.057%	AAA	-	497,092
Fed Home Ln Mtg Gold Pool 4%	N/R	-	27,199
Fed Home Ln Bk Ser 5K	AA+	-	88,444
Fed Nat Mtg Assoc Ser 2012	N/R	-	314,435
Fed Nat Mtg Assoc Ser 2011	N/R	-	424,951
Fed Home Ln Mtg Ser 3935	N/R	-	112,626
Fed Home Ln Mtg Ser 4060	N/R	-	360,107
Fed Home Ln Mtg Ser 4107	N/R	-	411,680
Fed Home Ln Mtg Ser 3829	N/R	-	210,020
Fed Nat Mtg Assoc Pool	N/R	-	232
Fed Nat Mtg Assoc Ser 2003	N/R	-	82,911
Fed Home Ln Mtg Ser 2964	N/R	-	31,882
Fed Home Ln Mtg Ser 3554	N/R	-	23,744
Fed Nat Mtg Assoc Ser 2011	N/R	-	149,517
Fed Nat Mtg Assoc Ser 2010	N/R	-	132,651
Fed Home Ln Mtg Ser 3683	N/R	-	302,061
Fed Home Ln Mtg Ser 3747	N/R	-	163,293
Fed Home Ln Mtg Ser 3649	N/R	-	180,867
Fed Home Ln Mtg Ser 3649	N/R	-	29,762
Fed Nat Mtg Assoc Arm Pool	N/R	-	44,524

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 2: Cash and Investments *(Continued)*

June 30, 2013			
Investment	Rating	Maturities	Fair Value
Fed Nat Mtg Assoc Arm Pool	N/R	-	54,520
Fed Nat Mtg Assoc Arm Pool	N/R	-	46,900
Fed Nat Mtg Assoc Pool	N/R	-	254,054
GE Cap Finl Inc Salt Lake City UT	N/R	-	150,660
			\$ 12,884,560

▶ *Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

▶ *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

▶ *Concentration of Credit Risk*

The District's investment policy places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Federal Home Loan Mortgage and Federal National Mortgage Association. These investments are 20.54% and 12.43% respectively, of the District's total investments.

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2013 consist of the following:

June 30, 2013		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 221,660

The amount represents an interfund loan between the general fund and special revenue fund that is necessary to fulfill the current cash requirements of the special revenue fund.

Note 4: Capital Assets

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

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 2,510,490	\$ -	\$ -	\$ 2,510,490
Construction in progress	15,855,308	6,787,868	19,217,022	3,426,154
Total non-depreciable historical cost	18,365,798	6,787,868	19,217,022	5,936,644
Capital assets that are depreciated:				
Land improvements	2,316,163	-	-	2,316,163
Buildings and improvements	76,602,097	19,063,694	-	95,665,791
Technology equipment	5,097,651	66,452	180,523	4,983,580
Vehicles	6,721,420	376,960	-	7,098,380
General	2,999,296	65,503	9,400	3,055,399
Total depreciable historical cost	93,736,627	19,572,609	189,923	113,119,313

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 4: Capital Assets (Continued)

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Less accumulated depreciation for:				
Land improvements	1,178,768	100,883	-	1,279,651
Buildings and improvements	21,474,287	2,228,537	-	23,702,824
Technology equipment	4,037,801	325,091	180,139	4,182,753
Vehicles	4,725,526	415,998	-	5,141,524
General	2,047,245	142,879	9,400	2,180,724
Total accumulated depreciation	33,463,627	3,213,388	189,539	36,487,476
Total depreciable historical cost, net	60,273,000	16,359,221	384	76,631,837
Governmental Activities, Capital Assets, Net	\$ 78,638,798	\$ 23,147,089	\$ 19,217,406	\$ 82,568,481
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 130,186	\$ -	\$ -	\$ 130,186
Technology equipment	2,166	-	-	2,166
General	1,271,379	250,588	20,008	1,501,959
Total depreciable historical cost	1,403,731	250,588	20,008	1,634,311
Less accumulated depreciation for:				
Buildings and improvements	112,248	4,135	-	116,383
Technology equipment	2,130	-	-	2,130
General	1,003,422	53,349	17,222	1,039,549
Total accumulated depreciation	1,117,800	57,484	17,222	1,158,062
Business-Type Activities, Capital Assets, Net	\$ 285,931	\$ 193,104	\$ 2,786	\$ 476,249

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 4: Capital Assets *(Continued)*

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2013
Instruction	\$ 2,692,922
Support services:	
Student support	28,991
Instructional staff	2,328
District administration	24,938
School administration	467
Business support	1,872
Facilities operations	112,430
Student transportation	349,111
Other	329
Total Depreciation Expense	\$ 3,213,388

Note 5: Long-Term Obligations

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

Issue Date	Proceeds	Rates
1993 Bond	\$ 610,000	2.90%-5.50%
2002R Bond	7,830,000	1.70%-4.50%
2003 Bond	1,135,000	2.00%-4.50%
2004 Bond	1,605,000	2.50%-4.63%
2007 Bond	2,000,000	3.63%-4.00%
2007R Bond	4,015,000	3.40%-3.90%
2009R Kista	362,851	1.00%-3.00%
2010 Bond	12,670,000	0.70%-5.55%
2011R Bond	6,560,000	1.25%-2.125%
2012R Bond	8,775,000	2.00%
2012 Bond	1,100,000	0.90%-2.125%
2013 Bond	6,000,000	1.00%-3.00%

On September 12, 2012, the District issued \$1,100,000 General Obligation Bonds with interest rates ranging from 0.90% - 2.125% for the energy conservation building improvement project.

On January 29, 2013, the District issued \$6,000,000 General Obligation Bonds with interest rates ranging from 1.00% - 3.00% for the construction of a new Technology Wing at Muhlenberg County High School – West Campus.

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Obligations *(Continued)*

In 2012, the District defeased \$13,895,000 of the 2003 and 2004 bonds by placing new bond proceeds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, \$13,895,000 of the defeased bonds are still outstanding.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Muhlenberg 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 District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has US Treasury Build America Bonds outstanding which requires the US Treasury to subsidize the District for 35% of the interest cost for the outstanding bonds.

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

Year	Muhlenberg County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2013-2014	\$ 1,386,813	\$ 879,969	\$ 1,009,191	\$ 354,705	\$ 187,817	\$ 3,818,495
2014-2015	1,436,686	833,036	1,040,049	322,632	186,239	3,818,642
2015-2016	1,495,223	796,321	1,063,310	299,370	183,555	3,837,779
2016-2017	1,528,097	762,230	1,087,193	275,487	180,114	3,833,121
2017-2018	1,569,343	725,901	1,055,657	251,419	176,252	3,778,572
2018-2019	1,604,616	686,565	1,080,384	226,646	171,958	3,770,169
2019-2020	1,648,518	643,439	1,106,482	200,518	166,872	3,765,829
2020-2021	1,704,496	589,802	1,005,504	172,980	158,763	3,631,545
2021-2022	1,745,864	540,720	1,029,136	149,348	147,641	3,612,709

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Obligations (Continued)

Year	Muhlenberg County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2022-2023	1,786,407	488,960	1,053,593	124,891	135,927	3,589,778
2023-2024	1,838,260	434,423	1,056,740	99,741	123,478	3,552,642
2024-2025	1,326,827	384,016	253,173	74,586	110,140	2,148,742
2025-2026	1,231,553	334,731	263,447	64,311	95,988	1,990,030
2026-2027	1,265,542	285,319	274,458	53,302	80,719	1,959,340
2027-2028	1,219,010	233,111	215,990	41,453	64,302	1,773,866
2028-2029	1,254,141	181,166	225,859	31,585	46,862	1,739,613
2029-2030	1,287,526	125,843	242,474	20,734	28,479	1,705,056
2030-2031	1,326,922	67,763	213,078	10,062	9,518	1,627,343
2031-2032	507,143	30,817	67,857	4,133	-	609,950
2032-2033	520,106	15,603	69,894	2,097	-	607,700
	\$27,683,093	\$ 9,039,735	\$13,413,469	\$ 2,780,000	\$ 2,254,624	\$55,170,921

Changes in long-term obligations are as follows:

June 30, 2013	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 36,311,797	\$ 7,100,000	\$ (2,315,235)	\$ 41,096,562	\$ 2,396,004
Less (discounts)/premiums	(102,692)	(106,266)	10,666	(198,292)	-
Total bonds and notes payable	36,209,105	6,993,734	(2,304,569)	40,898,270	2,396,004
Other liabilities:					
Compensated absences	1,664,324	76,313	(119,427)	1,621,210	865,475
Total other liabilities	1,664,324	76,313	(119,427)	1,621,210	865,475
Total Long-Term Liabilities	\$ 37,873,429	\$ 7,070,047	\$ (2,423,996)	\$ 42,519,480	\$ 3,261,479

Muhlenberg County School District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Obligations (Continued)

June 30, 2013	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Business-Type Activities:					
Other liabilities:					
Compensated absences	\$ 15,902	\$ 3,538	\$ -	\$ 19,440	\$ 12,658
Total Long-Term Liabilities	\$ 15,902	\$ 3,538	\$ -	\$ 19,440	\$ 12,658

Note 6: Fund Balances

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

Nonspendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. At June 30, 2013, the District had \$ 174,460 nonspendable in the general fund related to inventory and prepaid expenses.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$ 3,108,960 as restricted for capital projects in the general fund, \$ 6,059,403 restricted for capital projects in the construction fund, \$ 583,995 restricted in the general fund for local grants and \$ 371,428 restricted in the nonmajor funds for capital projects or debt service.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District did not have any commitments in the general fund at June 30, 2013.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Note 6: Fund Balances *(Continued)*

The District has assigned \$ 140,558 in the general fund for site-base carry forward at June 30, 2013. Assigned fund balances also include (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013 in the governmental funds balance sheet.

Note 7: Pension Plans

• **Plan Descriptions**

The Muhlenberg County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS), and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS). The CERS is a cost-sharing, multiple-employer defined benefit plan. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or from the KTRS web site at <http://ktrs.ky.gov/>. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Note 7: Pension Plans *(Continued)*

• ***Funding Policy***

KTRS plan members are required to contribute 10.855% of their covered salary. The CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky and the District are required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% for the Commonwealth and 1.000% for the District of annual covered payroll. The rate for CERS is 19.55%, 18.96%, and 16.93% for the years ended June 30, 2013, 2012 and 2011, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$1,530,898, \$1,420,536 and \$1,237,373, respectively, equal to the required contributions for each year.

For the year ended June 30, 2013 the Commonwealth contributed \$ 3,140,503 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$585,637.

• ***Medical Insurance Plan***

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

To be eligible for medical benefits, the member must have retired 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-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2012–2013 fiscal year.

Note 7: Pension Plans *(Continued)*

• ***Deferred Compensation***

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statements.

Note 8: Contingencies

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

Note 9: Concentrations

For the year ended June 30, 2013, the District received \$10,076,495 from the Tennessee Valley Authority (TVA) as payment in-lieu-of-tax, which represented 17.9% of the total governmental fund revenues.

Note 10: Risk Management

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

Note 10: Risk Management *(Continued)*

The District purchases unemployment insurance through the Kentucky School Boards 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 insurance coverage in any of the past three fiscal years.

Note 11: 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. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

Note 12: Excess Expenditures over Appropriations

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Year ended June 30, 2013</u>	
<u>Fund</u>	<u>Amount</u>
General	\$ 4,021,482

Note 13: Fund Transfers

Fund transfers for the year ended June 30, 2013 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue Fund	Matching	\$ 111,300
Operating	General Fund	Construction Fund	Construction	3,983,906
Operating	General Fund	Community Education	Operating	116
Operating	FSPK	Construction Fund	Construction	148,494
Operating	SEEK	Debt Service	Debt Service	462,165
Operating	FSPK	Debt Service	Debt Service	1,499,461

Note 14: On-behalf Payments

The District receives on-behalf payments from the State of Kentucky and the US Treasury for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2013, was 10,539,066. These payments were recorded as follows:

Year ended June 30, 2013	
Fund	Amount
General Fund	\$ 8,773,310
Debt Service Fund	1,511,215
Food Service Fund	209,323
Day Care Fund	45,218
Total	\$ 10,539,066

Required Supplementary Information

Muhlenberg County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (Budgetary Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Local and intermediate sources	\$ 16,034,700	\$ 17,525,863	\$ 18,329,458	\$ 803,595
State programs	20,653,008	20,306,916	20,251,605	(55,311)
Federal programs	75,000	75,000	91,636	16,636
Total revenues	36,762,708	37,907,779	38,672,699	764,920
Expenditures				
Current:				
Instruction	22,102,449	23,477,535	23,327,517	150,018
Support services:				
Student	1,179,686	1,484,084	1,571,300	(87,216)
Instructional staff	822,121	926,030	861,842	64,188
District administration	1,710,689	1,816,410	1,474,087	342,323
School administration	1,935,654	1,984,245	1,898,176	86,069
Business	840,312	953,625	973,866	(20,241)
Plant operations and maintenance	4,948,230	4,565,538	4,474,261	91,277
Student transportation	3,720,483	3,718,121	3,842,779	(124,658)
Other	104,881	111,356	112,816	(1,460)
Food service operations	60,644	76,501	62,215	14,286
Architectural/engineering	9,722,596	2,059,402	-	2,059,402
Total expenditures	47,147,745	41,172,847	38,598,859	2,573,988

Excess (Deficiency) of Revenues over Expenditures	(10,385,037)	(3,265,068)	73,840	3,338,908
Other Financing Sources (Uses)				
Operating transfers - net	(37,352)	(7,157,321)	(4,095,322)	3,061,999
Total other financing sources (uses)	(37,352)	(7,157,321)	(4,095,322)	3,061,999
Net change in Fund Balance	(10,422,389)	(10,422,389)	(4,021,482)	6,400,907
Fund Balance-Beginning of Year	10,422,389	10,422,389	11,720,838	1,298,449
Fund Balance- End of Year	\$ -	\$ -	\$ 7,699,356	\$ 7,699,356

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Inflows/revenues:

 Actual amounts (budgetary basis) \$ 38,672,699

Differences - budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budgeted amounts 8,773,310

**Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds**

\$ 47,446,009

Outflows/expenditures:

 Actual amounts (budgetary basis) \$ 38,598,859

Differences - budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 8,773,310

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds**

\$ 47,372,169

Muhlenberg County School District
Budgetary Comparison Schedule for the Special Revenue Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (GAAP Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ -	\$ 3,143	\$ 3,143
State programs	1,629,078	1,569,186	1,607,627	38,441
Federal programs	3,108,175	3,093,123	3,367,363	274,240
Total revenues	4,737,253	4,662,309	4,978,133	315,824
Expenditures				
Current:				
Instruction	3,747,120	3,764,624	4,059,716	(295,092)
Support services:				
Student	48,000	29,274	48,133	(18,859)
Instructional staff	241,510	202,393	25,053	177,340
School administration	101,634	103,625	101,634	1,991
Business	5,575	5,575	222,075	(216,500)
Plant operations and maintenance	29,987	29,987	28,025	1,962
Student transportation	181,825	181,825	185,843	(4,018)
Other	418,954	418,954	418,954	-
Total expenditures	4,774,605	4,736,257	5,089,433	(353,176)
Excess (Deficiency) of Revenues over Expenditures	(37,352)	(73,948)	(111,300)	(37,352)

Other Financing Sources (Uses)				
Operating transfers - net	37,352	73,948	111,300	37,352
Total other financing sources (uses)	37,352	73,948	111,300	37,352
Net Change in Fund Balance	-	-	-	-
Fund Balance-Beginning of Year	-	-	-	-
Fund Balance-End of Year	\$ -	\$ -	\$ -	\$ -

Supplementary Information

Muhlenberg County School District
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2013	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Governmental Funds
Assets				
Cash	\$ -	\$ 371,428	\$ 2,500	\$ 373,928
Total Assets	\$ -	\$ 371,428	\$ 2,500	\$ 373,928
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 2,500	\$ 2,500
Total liabilities	-	-	2,500	2,500
Fund Balances				
Fund Balances				
Restricted	-	371,428	-	371,428
Total fund balances	-	371,428	-	371,428
Total Liabilities and Fund Balances	\$ -	\$ 371,428	\$ 2,500	\$ 373,928

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

Year Ended June 30, 2013	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 765,249	\$ -	\$ 765,249
Intergovernmental - state	462,165	910,099	1,322,555	2,694,819
Intergovernmental - federal	-	-	188,660	188,660
Total revenues	462,165	1,675,348	1,511,215	3,648,728
Expenditures				
Debt service:				
Principal	-	-	2,315,235	2,315,235
Interest	-	-	1,157,606	1,157,606
Total expenditures	-	-	3,472,841	3,472,841
Excess (Deficiency) of Revenues over Expenditures	462,165	1,675,348	(1,961,626)	175,887
Other Financing Sources (Uses)				
Operating transfers in	-	-	1,961,626	1,961,626
Operating transfers out	(462,165)	(1,647,955)	-	(2,110,120)
Total other financing sources (uses)	(462,165)	(1,647,955)	1,961,626	(148,494)
Net Change in Fund Balances	-	27,393	-	27,393
Fund Balances - Beginning of Year	-	344,035	-	344,035
Fund Balances - End of Year	\$ -	\$ 371,428	\$ -	\$ 371,428

Muhlenberg County School District
Combining Statement of Net Position
Nonmajor Proprietary Funds

June 30, 2013	Community Education	Day Care	Total Other Enterprise Funds
Assets			
Cash	\$ 559	\$ -	\$ 559
Total assets	559	-	559
Liabilities			
Accounts payable	175	-	175
Total liabilities	175	-	175
Net Position			
Unrestricted	384	-	384
Total Net Position	\$ 384	\$ -	\$ 384

Muhlenberg County School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds

Year Ended June 30, 2013	Community Education	Day Care	Total Other Enterprise Funds
Operating Revenues			
Tuition and fees	\$ 460	\$ 259,074	\$ 259,534
Total operating revenues	460	259,074	259,534
Operating Expenses			
Salaries and wages	-	303,850	303,850
Materials and supplies	-	442	442
Other operating expenses	555	-	555
Total operating expenses	555	304,292	304,847
Operating loss	(95)	(45,218)	(45,313)
Nonoperating Revenues (Expenses)			
State operating grants	-	45,218	45,218
Total nonoperating revenues (expenses)	-	45,218	45,218
Income (loss) before transfers	(95)	-	(95)
Transfers	116	-	116
Change in Net Position	21	-	21
Net Position - Beginning of Year	363	-	363
Net Position - End of Year	\$ 384	\$ -	\$ 384

Muhlenberg County School District
Combining Statement of Cash Flows
Nonmajor Proprietary Funds

Year Ended June 30, 2013	Community Education	Day Care	Total Other Enterprise Funds
Cash Flows from Operating Activities			
Cash received from user charges	\$ 460	\$ 259,074	\$ 259,534
Cash payments to employees for services	-	(258,632)	(258,632)
Cash payments to suppliers for goods and services	-	(442)	(442)
Cash payments for other operating	(380)	-	(380)
Net cash provided by operating activities	80	-	80
Cash Flows from Noncapital Financing Activities			
Operating transfer from the general fund	116	-	116
Net cash provided by noncapital financing activities	116	-	116
Net Increase in Cash	196	-	196
Cash - Beginning of Year	363	-	363
Cash - End of Year	\$ 559	\$ -	\$ 559
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities			
Operating loss	\$ (95)	\$ (45,218)	\$ (45,313)
Adjustments to reconcile operating loss to net cash provided by operating activities			
On-behalf payments	-	45,218	45,218
Changes in assets and liabilities:			
Accounts payable	175	-	175
Net Cash Provided By Operating Activities	\$ 80	\$ -	\$ 80

Muhlenberg County School District
Combining Statement of Assets and Liabilities
All Activity Funds
All Schools

June 30, 2013	Cash			Cash			Accounts	Accounts	Due to Other	Due to Student
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Funds	Groups	June 30, 2013	June 30, 2013
Bremen Elementary School	\$ 29,520	\$ 115,837	\$ 104,807	\$ 40,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,550
Central City Elementary School	39,592	170,587	164,301	45,878	15	235	56	-	-	45,602
Greenville Elementary School	29,840	59,923	58,105	31,658	150	279	-	-	-	31,529
Longest Elementary School	73,230	241,636	246,377	68,489	-	-	44,095	-	-	24,394
Muhlenberg South Elementary School	45,832	108,739	120,348	34,223	405	143	-	-	-	34,485
Muhlenberg North Middle School	75,468	147,493	130,650	92,311	-	-	-	-	-	92,311
Muhlenberg South Middle School	28,630	170,938	154,390	45,178	-	-	-	-	-	45,178
Muhlenberg County West Campus	183,560	698,636	667,014	215,182	-	-	-	-	-	215,182
Muhlenberg County East Campus	65,009	241,345	215,660	90,694	-	-	-	-	-	90,694
Total	\$ 570,681	\$ 1,955,134	\$ 1,861,652	\$ 664,163	\$ 570	\$ 657	\$ 44,151	\$ -	\$ 619,925	

Muhlenberg County School District
Statement of Assets and Liabilities
School Activity Funds
Muhlenberg County High School – West Campus

Year ended June 30, 2013	Cash			Cash	Accounts	Accounts	Due to Student
	July 01, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Groups
							June 30, 2013
General	\$ 4,026	\$ 8,697	\$ 9,294	\$ 3,429	\$ -	\$ -	\$ 3,429
High School Fees	820	-	290	530	-	-	530
Library	4,187	143	-	4,330	-	-	4,330
Lost Textbooks	-	160	160	-	-	-	-
Teachers' Materials	960	-	36	924	-	-	924
Student Snacks	1,690	2,160	1,686	2,164	-	-	2,164
Extra Work to Board	120	3,043	3,163	-	-	-	-
Athletics	24,882	122,777	135,500	12,159	-	-	12,159
Football	6,379	21,116	26,829	666	-	-	666
Boys' Golf	2	-	-	2	-	-	2
Tennis	1,371	5,141	2,494	4,018	-	-	4,018
Softball	4,500	9,071	12,597	974	-	-	974
Concessions	6,717	39,584	33,006	13,295	-	-	13,295
Boys' Basketball	1,977	12,999	14,853	123	-	-	123
Girls' Basketball	4,216	11,589	13,298	2,507	-	-	2,507
Athletic Boosters	982	26,425	25,226	2,181	-	-	2,181
Girls' Golf	-	1,000	-	1,000	-	-	1,000
Boys' Soccer	709	5,101	4,306	1,504	-	-	1,504
Track Team	38	16,636	16,322	352	-	-	352
Girls' Soccer	967	3,569	4,336	200	-	-	200
Developmental Basketball	3,333	7,780	8,588	2,525	-	-	2,525
Volleyball	216	150	150	216	-	-	216
Band	1,854	3,149	3,587	1,416	-	-	1,416
Chorus	787	155	290	652	-	-	652
JROTC College Credit	1,511	300	1,800	11	-	-	11
FFA	6,930	7,130	8,526	5,534	-	-	5,534
Family and Consumer Science	5,384	15,222	18,810	1,796	-	-	1,796
FCCLA	163	1,768	1,373	558	-	-	558
Industrial Arts	1,398	-	-	1,398	-	-	1,398
Business Department	816	-	10	806	-	-	806
Computer Department	1,597	-	-	1,597	-	-	1,597
Music Department	139	-	31	108	-	-	108
FFA Field Trips	282	-	-	282	-	-	282
FFA Banquet	1,587	1,680	2,278	989	-	-	989
Vocational Agriculture	3	-	3	-	-	-	-
Lady Mustangs Basketball Classic	1,719	5,900	6,992	627	-	-	627

Football Boosters Club	-	7,273	4,268	3,005	-	-	3,005
Boys' Soccer Booster Club	-	250	-	250	-	-	250
Girls' Soccer Booster Club	-	2,891	1,975	916	-	-	916
Girls' Golf Booster Club	-	-	-	-	-	-	-
Cheerleader Booster Club	-	20,498	18,187	2,311	-	-	2,311
Boys' Basketball Booster Club	-	8,649	6,876	1,773	-	-	1,773
Girls' Basketball Booster Club	-	500	-	500	-	-	500
Bass Fishing Team	-	5,761	5,714	47	-	-	47
STLP Club	-	1,070	263	807	-	-	807
FMD Class	-	570	568	2	-	-	2
Felix Martin - Dual Credit Fund	-	1,000	831	169	-	-	169
Softball Boosters	-	10,825	6,516	4,309	-	-	4,309
FMD Class - Stephanie Mahlosky	-	1,253	1,253	-	-	-	-
Felix Martin Hall Activities	-	24,645	24,645	-	-	-	-
FFA National Convention	535	16,280	16,722	93	-	-	93
English Department	5	-	-	5	-	-	5
Math Department	293	-	-	293	-	-	293
FFA Fruit	655	1,881	2,536	-	-	-	-
Science Department	49	-	16	33	-	-	33
Art Department	647	188	756	79	-	-	79
Yearbook	21,754	35,823	21,292	36,285	-	-	36,285
Social Studies	408	-	-	408	-	-	408
Drama Department	1,361	8,290	9,429	222	-	-	222
Dance Team	137	5,650	5,364	423	-	-	423
Mythology Class	-	606	-	606	-	-	606
Cheerleaders	3,299	10,413	9,600	4,112	-	-	4,112
Drama Club	3,228	3,390	6,110	508	-	-	508
Cedar Grant	-	1,025	791	234	-	-	234
National Honor Society	451	2,065	2,074	442	-	-	442
Academic Team	694	631	1,325	-	-	-	-
Writing Account	561	-	-	561	-	-	561
Spirit Club	96	3,690	3,133	653	-	-	653
Art Club	116	660	518	258	-	-	258
Technology Club	-	100	-	100	-	-	100
Senior Beta Club	-	7,216	5,991	1,225	-	-	1,225
Math Club	176	790	352	614	-	-	614
Science and Technology Club	852	1,800	2,390	262	-	-	262
Student Council	74	260	-	334	-	-	334
Scholarship Fund	1,000	6,000	3,500	3,500	-	-	3,500
Bill Gatton Foundation Scholarship	8,091	30,355	38,196	250	-	-	250
JROTC	2,089	21,726	20,889	2,926	-	-	2,926
Christian Athletic Club	229	-	-	229	-	-	229

Muhlenberg County School District
Statement of Assets and Liabilities
School Activity Funds
Muhlenberg County High School – West Campus

Year ended June 30, 2013	Cash July 1, 2012	Receipts	Disbursements	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
CEC Club	91	-	91	-	-	-	-
KYA	94	-	-	94	-	-	94
Freshman 2009/Interventions	-	1,685	-	1,685	-	-	1,685
Class of 2013	786	12,187	9,431	3,542	-	-	3,542
Class of 2014	4,190	23,203	15,677	11,716	-	-	11,716
Youth Service Center	3,904	5,098	2,705	6,297	-	-	6,297
Guidance Department	1,931	8,683	8,386	2,228	-	-	2,228
Relay for Life	200	3,183	3,330	53	-	-	53
YSC-Child Abuse Awareness	-	150	-	150	-	-	150
MCHS Recycling Committee	343	-	-	343	-	-	343
Special Education Account	44	-	-	44	-	-	44
Anime Club	196	-	-	196	-	-	196
Historical Foundation	45	-	-	45	-	-	45
S.A.D.D. Club	258	45	-	303	-	-	303
MCHS Newspaper	78	857	500	435	-	-	435
DECA Club	555	8,632	4,075	5,112	-	-	5,112
Swim Team	56	9,184	6,231	3,009	-	-	3,009
Project Prom	8,478	15,465	23,564	379	-	-	379
Student Celebrations	51	6,071	1,860	4,262	-	-	4,262
Greenhouse	10,000	4,704	5,302	9,402	-	-	9,402
FFA Grant	114	-	86	28	-	-	28
Wildlife Management	5,875	4,738	4,520	6,093	-	-	6,093
Multicultural Club	414	695	1,109	-	-	-	-
Future Educators of America	378	675	731	322	-	-	322
George Taylor Classic	88	15,000	1,000	14,088	-	-	14,088
Central Screen Printing T-Shirts	6,050	-	-	6,050	-	-	6,050
Spanish Honor Society	279	1,912	502	1,689	-	-	1,689
Total	\$ 183,560	\$ 698,636	\$ 667,014	\$ 215,182	\$ -	\$ -	\$ 215,182

Muhlenberg County School District
Statement of Assets and Liabilities
School Activity Funds
Muhlenberg County High School – East Campus

Year ended June 30, 2013	Cash			Cash			Accounts	Accounts	Due to Student
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Groups	June 30, 2013	
General Fund	\$ 23,198	\$ 47,555	\$ 50,758	\$ 19,995	\$ -	\$ -	\$ -	\$ 19,995	
Memorial Fund/Flower Fund	220	96	164	152	-	-	-	152	
Student Picture Commission	-	892	-	892	-	-	-	892	
Class Trips	700	9,980	10,672	8	-	-	-	8	
Relay for Life	10	3,963	3,485	488	-	-	-	488	
Vending Drinks	520	1,170	-	1,690	-	-	-	1,690	
Central Screen T-Shirts	671	-	666	5	-	-	-	5	
Rewards	3,797	-	28	3,769	-	-	-	3,769	
09/10 Band	205	4,711	4,915	1	-	-	-	1	
Target Take Charge of Edu. Program	241	-	-	241	-	-	-	241	
AP Test Fees	205	2,627	2,662	170	-	-	-	170	
Guidance	351	2,222	2,491	82	-	-	-	82	
Chorus	50	-	-	50	-	-	-	50	
Teacher's Lounge	721	2,123	2,437	407	-	-	-	407	
Greenhouse	3,909	13,143	3,912	13,140	-	-	-	13,140	
Intro Shop Materials	164	688	98	754	-	-	-	754	
Equine Science	34	718	716	36	-	-	-	36	
Farm Machinery Show	-	3,007	3,007	-	-	-	-	-	
Breathitt Vet Center	-	270	231	39	-	-	-	39	
State Fair Account	4	1,607	1,611	-	-	-	-	-	
Meat Stick Account	2,772	2,473	1,616	3,629	-	-	-	3,629	
FFA T-Shirt/Hoodies	-	1,230	1,062	168	-	-	-	168	
FFA Jackets	17	1,886	1,889	14	-	-	-	14	
FFA Fruit	1,142	7,398	5,610	2,930	-	-	-	2,930	
FFA Camp	-	3,060	1,875	1,185	-	-	-	1,185	
Recycling Fund	14	-	-	14	-	-	-	14	
Land Judging Fund	1	-	-	1	-	-	-	1	
AG	226	384	596	14	-	-	-	14	
FFA Dues	186	2,270	2,225	231	-	-	-	231	
Family/Consumer	716	4,177	4,806	87	-	-	-	87	
FCCLA	492	6,085	4,569	2,008	-	-	-	2,008	
Mustang Anglers	485	1,286	760	1,011	-	-	-	1,011	
Art Club	-	501	274	227	-	-	-	227	
Art/Midkiff	80	1,054	990	144	-	-	-	144	
Photo/Midkiff & Whitehouse	-	91	91	-	-	-	-	-	
JROTC Fundraiser	-	8,998	8,998	-	-	-	-	-	
FCA	14	11	-	25	-	-	-	25	
JROTC Drill Team	1,601	1,627	1,919	1,309	-	-	-	1,309	

Cooking Club	-	160	69	91	-	-	91
Freshman Academy	164	1,806	1,970	-	-	-	-
Guitar Club	61	-	-	61	-	-	61
Dare 2 B Club	676	6,403	5,842	1,237	-	-	1,237
Math Club	34	835	454	415	-	-	415
Future Educators	1,142	-	-	1,142	-	-	1,142
Need Project Mini Grant	150	-	-	150	-	-	150
Aviation	-	350	350	-	-	-	-
Foreign Language	134	3,150	3,188	96	-	-	96
STLP	473	1,408	387	1,494	-	-	1,494
TravelOdyssey	-	2,140	1,810	330	-	-	330
Media	442	-	41	401	-	-	401
AP History/Geography	-	1,631	1,363	268	-	-	268
Sr. Beta	163	1,564	39	1,688	-	-	1,688
Yearbook	191	-	-	191	-	-	191
Jr. Beta	-	6,275	6,096	179	-	-	179
Drama Club	599	1,355	780	1,174	-	-	1,174
Student Government	784	-	-	784	-	-	784
DECA	-	141	36	105	-	-	105
Multicultural	55	60	-	115	-	-	115
FBLA Club	-	283	-	283	-	-	283
Book Rental	-	17,204	17,204	-	-	-	-
Spirit Club	760	6,362	1,161	5,961	-	-	5,961
PLTW	-	225	225	-	-	-	-
Sports Club	256	2,410	1,004	1,662	-	-	1,662
Chess Club	56	-	-	56	-	-	56
Community Service Club	283	-	-	283	-	-	283
Student Council	140	-	-	140	-	-	140
Library	329	30	199	160	-	-	160
Archery	-	9,237	7,656	1,581	-	-	1,581
Baseball Club	-	270	248	22	-	-	22
Baseball	5,042	177	4,741	478	-	-	478
Varsity Baseball Boosters	1,012	15,395	12,284	4,123	-	-	4,123
Baseball 15 & Under League	778	3,859	2,617	2,020	-	-	2,020
Baseball 15 & Under Concession	675	1,667	2,342	-	-	-	-
Athletic Officials	-	895	895	-	-	-	-
Cross Country	1,674	5,129	6,643	160	-	-	160
Girls' Golf	6,190	3,300	4,046	5,444	-	-	5,444
Boys' Golf	-	4,335	3,604	731	-	-	731
Volleyball	-	3,724	3,073	651	-	-	651
Volleyball Boosters	-	2,262	160	2,102	-	-	2,102
Total	\$ 65,009	\$ 241,345	\$ 215,660	\$ 90,694	\$ -	\$ -	\$ 90,694

Muhlenberg County School District Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Child Nutrition Cluster			
Food Distribution Program- noncash	10.555	--	\$ 147,435
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 13	469,413
National School Lunch Program	10.555	7750002 13	1,402,163
National School Summer Meals Program	10.559	7740023 13	9,935
Total U.S. Department of Agriculture			2,028,946
U.S. Department of Defense			
ROTC	12.000	--	91,791
Total U.S. Department of Defense			91,791
U.S. Department of Education			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2012	84.010	3100002 11	588,139
Title I to Local Educational Agencies - 2013	84.010	3100002 12	836,286
Title I School Improvements	84.010	3100202 11	29,392
Subtotal			1,453,817
Special Education Cluster			
Special Education - 2011	84.027	3810002 10	4,332
Special Education - 2012	84.027	3810002 11	921,160
Special Education - 2013	84.027	3810002 12	325,304
Special Education - Preschool - 2012	84.173	3800002 11	11,270
Special Education - Preschool - 2013	84.173	3800002 12	58,450
Subtotal			1,320,516
Perkins	84.048	4621332 13	55,479
Rural/Low Income School Program - Title VI	84.358	3140002 11	86,052
Improving Teacher Quality - 2013	84.367	3230002 12	302,576
Enhancing Ed. Through Tech. - 2010	85.318	3210002 09	2,560
Education Jobs Fund	84.410	EJOB00 10	8,271
Race to the Top	84.413	3960002 11	11,045
Passed-Through State Workforce Cabinet:			
Community Based Work Transition	84.126	3763	35,256
Total U.S. Department of Education			3,275,572
Total Expenditures of Federal Awards			\$ 5,396,309

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

Muhlenberg County School District
Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Muhlenberg County School District (the "District") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

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

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

▪ **Finding 2012-007 U.S. Department of Education – Improving Teacher Quality**

Condition: Time and effort documentation was not maintained for all time charged to the federal program.

Recommendation: It was recommended that the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Current Status: The recommendation was adopted for the year ended June 30, 2013. No similar findings were noted in the 2013 audit regarding this program.

▪ **Finding 2012-007 U.S. Department of Education – Rural and Low-Income Schools**

Condition: Time and effort documentation was not maintained for all time charged to the federal program.

Recommendation: It was recommended that the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Current Status: Time and effort documentation was not corrected for the program for the year ended June 30, 2013.



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**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***

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, 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 as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Muhlenberg County School District's basic financial statements and have issued our report thereon dated November 12, 2013.

● **Internal Control Over Financial Reporting**

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

in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item numbers 2012-001, 2013-001 and 2013-002 that we consider to be significant deficiencies.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items, 2012-006, 2013-001 and 2013-002. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Independent Auditor's Contract – State Compliance Requirements*, except as noted above.

- **Muhlenberg County School District's Response to Findings**

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

• **Purpose of this Report**

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

Carr, Riggs & Ingram, L.L.C.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

● Report on Compliance for Each Major Federal Program

We have audited Muhlenberg County School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance

with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

- **Opinion on Each Major Federal Program**

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

- **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

- **Report on Internal Control over Compliance**

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

Muhlenberg County School District Schedule of Findings and Questioned Costs

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 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-003, that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2013

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: unqualified

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

Muhlenberg County School District
Schedule of Findings and Questioned Costs (Continued)

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027 / 84.173	Special Education Cluster
84.367	Improving Teacher Quality

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

▪ **2012-001 Financial Reporting**

Criteria and Condition: The internal control structure should be such that misstatements in the District’s financial statements are prevented or detected and corrected on a timely basis. Proposed audit adjustments were made to accounts payable and retainage payable which related to current construction projects.

Cause: Certain internal controls were not in place to prevent or detect and correct misstatements.

Effect: Financial statements could contain undetected errors.

Recommendation: We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District’s financial statements.

Views of Responsible Officials and Planned Corrective Actions: Current construction projects will be reviewed for correct year end AP’s and retainage amounts.

Muhlenberg County School District
Schedule of Findings and Questioned Costs (Continued)

▪ **2012-006 Investments**

Criteria and Condition: The Kentucky regulations (KRS 66.480) restricts the types of investments that the District may hold.

Cause: The District has investment holdings that include stocks that are in violation of KRS 66.480.

Effect: The District is not in compliance with Kentucky regulations.

Recommendation: We recommend all investment holdings comply with KRS 66.480.

Views of Responsible Officials and Planned Corrective Actions: The Exxon and Chevron stock the board currently owns was bequeathed to it in a will from years ago. The will is very specific and restrictive on how the District is allowed to spend the dividend monies. The District is in compliance with the legal requirements of the will.

▪ **2013-001 Custodial Credit Risk**

Criteria and Condition: State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky; bonds of any city, county, school authority or special road authority of the State of Kentucky; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. As of June 30, 2013, \$457,212 of the District's bank balance of \$5,860,706 was exposed to custodial credit risk as the bank balances exceeded the amount secured by the Federal Deposit Insurance Corporation.

Cause: Certain internal controls were not in place to prevent or detect custodial credit risk at the District's fiscal year-end.

Effect: In the event of a bank failure, the District's deposits may not be returned.

Recommendation: We recommend the District develop processes and procedures to ensure the District's custodial credit risk is minimized in a timely manner by following state requirements of collateralization of all deposits exceeding federal depository insurance coverage limits.

Muhlenberg County School District
Schedule of Findings and Questioned Costs (Continued)

Views of Responsible Officials and Planned Corrective Actions: The funds noted have been transferred to the Board's primary bank account which is properly collateralized.

▪ **2013-002 Allowable Cost Principles**

Criteria and Condition: Time and effort documentation should be maintained for all time charged to applicable federal programs. In our testing of payroll cost, we noted controls were not in place to detect that employee time and effort documentation was not being prepared.

Effect: Payroll cost may be charged to grants incorrectly causing grantors to require repayment of funds.

Cause: The District does not have sufficient procedures in place to monitor federal programs' payroll cost to ensure time and effort reports are maintained.

Recommendation: We recommend the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Views of Responsible Officials and Planned Corrective Actions: Time and effort sheets will be maintained for the appropriate staff.

Section III — Federal Award Findings and Questioned Costs

▪ **2013-003 Allowable Cost Principles**

U.S. Department of Education
Special Education Cluster
CFDA No. 84.027 and 84.173
Grant No. 3810002-10, 3810002-11, 3810002-12, 3800002-11, 3800002-12
For the Year Ended June 30, 2013

Criteria and Condition: Time and effort documentation should be maintained for all time charged to applicable federal programs. In our testing of payroll cost, we noted controls were not in place to detect that employee time and effort documentation was not being prepared.

Effect: Payroll cost may be charged to grants incorrectly.

Muhlenberg County School District
Schedule of Findings and Questioned Costs (Continued)

Cause: The District does not have sufficient procedures in place to monitor federal programs' payroll cost to ensure time and effort reports are maintained.

Context: Time and effort documentation was reviewed for the program. A portion of two employees' salaries were paid from the program for one half of the year without proper documentation with questioned costs totaling \$52,908.

Recommendation: We recommend the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Views of Responsible Officials and Planned Corrective Actions: Time and effort sheets are now being maintained for the appropriate staff. The staff noted were not full time and we didn't realize the time and effort sheets were needed.

▪ **2013-004 Allowable Cost Principles**

U.S. Department of Education
Rural/Low Income Schools Program – Title VI
CFDA No. 84.358
Grant No. 3140002-11
For the Year Ended June 30, 2013

Criteria and Condition: Time and effort documentation should be maintained for all time charged to applicable federal programs. In our review of prior year findings, we noted controls were not in place to detect that employee time and effort documentation was not being prepared.

Effect: Payroll cost may be charged to grants incorrectly.

Cause: The District does not have sufficient procedures in place to monitor federal programs' payroll cost to ensure time and effort reports are maintained.

Context: Time and effort documentation was not completed for the program with questioned costs totaling \$61,605.

Recommendation: We recommend the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Views of Responsible Officials and Planned Corrective Actions: Time and effort sheets will be maintained for the appropriate staff.



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Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

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

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated November 12, 2013 contains our report on the District's internal control. This letter does not affect our report dated November 12, 2013 on the financial statements of the District.

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

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2013

Current Year and Prior Year

• Central Office

- During our procedures, we noted that invoices are not documented as approved on a consistent basis. We recommend all invoices be documented by initialing and dating to show the proper approval prior to being paid.
- During our procedures over bidding, we noted one instance of a vendor with purchases in excess of \$20,000 that was not properly bid. We recommend all items over \$20,000 be bid and the bidding process be monitored as required by regulations.
- During our procedures over disbursements, we noted invoices are not stamped paid. We recommend all paid invoices be marked as paid to avoid double payment of invoices.
- During our review of the salary schedule, we noted the finance officer's salary did not agree to the salary schedule. We recommend that all employees be paid in accordance with the salary schedule or proper documentation of Board approval of adjustments be maintained in the personnel file.
- During our review of the bank reconciliations, we noted unusual reconciling items as well as balances that did not reconcile to the general ledger balances. We recommend variances in the reconciliation process be resolved and the bank reconciliations be reviewed by someone other than the preparer.
- During our review of the bank accounts, we noted Food Service bank accounts with large balances. We recommend funds in any accounts used for Food Service daily deposits be transferred to the District's main operating account on a regular basis and that only minimal funds are maintained in those accounts.
- During our review of the District's cash, we noted many bank accounts. We recommend the accounts be reviewed for any that could be closed and transferred into one centralized account.
- During our review of the accounting records, we noted that there were Food Service expenses recorded in the General Fund. We recommend all Food Service expenses be recorded in Food Service so that there is a more accurate indication of the operations of that function.

- During our review of procurement, we noted that purchase orders are not used for all purchases. We recommend in order to obtain and document proper approval of expenditures, purchase orders be used for all purchases over a set threshold.

• **All Schools**

- During our procedures over the activity funds, we noted that the activity funds are being used for activities that should not be in the activity funds including but not limited to grant activity, day care operations, community education, professional development, and to supplement shortfalls in Board allocations. We recommend that the use of the activity funds be limited to those activities as set forth in the Redbook.

• **Greenville Elementary School**

- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

• **South Elementary School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- In our testing, we noted the teacher/sponsor was not giving money to the school treasurer each day sales were made at the book fair. We recommend all money collected by a teacher/sponsor be given to the school treasurer on the day collected.

• **Longest Elementary School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

• **Muhlenberg North Middle School**

- During our procedures over disbursements, we noted that checks are not being signed by two individuals on a consistent basis. We recommend all check are signed by two authorized individuals as required by the Red Book.
- During our procedures over ticket sales, we noted that ticket colors are not being rotated between events. We recommend that ticket sales are rotated between each event to reduce the risk of an individual being admitted into an event without paying.

• **Muhlenberg South Middle School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

• **Muhlenberg County High School - East Campus**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

• **Muhlenberg County High School - West Campus**

- During our review of ticket sales, we noted that receipts from ticket sales are not deposited in a timely manner. We recommend that all receipts collected from ticket sales from school events be deposited at least the day following the event when it is after school hours. Undeposited receipts should be secure until a deposit is made.
- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

- During our review of the bank statements, we noted large deposits made 3-4 times each month. We recommend receipts are recorded in the accounting system when received and all deposits over \$100 are made on a daily basis.

Current Year

• Central Office

- During our review of disbursements, we noted cellular phone bills that were being paid without approval that contained overage charges. We recommend that cellular phone usage be monitored and approved by the appropriate personnel.
- During our review of federal grants, we noted that the federal cash requests did not always agree with the MUNIS accounting records. We recommend the federal cash requests be monitored and reviewed by someone other than the preparer to ensure accuracy with MUNIS accounting records.
- During our procedures over long-term obligations, we noted one bond issue that did not have proper board approval documented in the minutes. We recommend that the sale of all bond issues be properly documented in the minutes of the board.

• All Schools

- During our procedures over disbursements, we noted invoices are not stamped paid. We recommend all paid invoices be marked as paid to avoid double payment of invoices.

• Bremen Elementary School

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.

• Greenville Elementary School

- During our inquiries regarding the activity funds, we noted that fundraiser worksheets are not utilized for fundraising activities. We recommend all fundraisers be properly documented with the fundraiser worksheet as required by the Redbook.

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip is initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.

• **Central City Elementary School**

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.
- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

• **Longest Elementary School**

- During our inquiries regarding the activity funds, we noted that sign in/out forms are not maintained on the school credit card. We recommend sign in/out forms be maintained on the credit card in order to strengthen controls and ensure that all purchases are approved.
- During our inquiries regarding the activity funds, we noted that budgets and annual receipts and disbursements are not obtained from supporting organizations. We recommend budgets and annual receipts and disbursements are obtained from supporting organizations in accordance with Redbook requirements.
- During our inquiries regarding the activity funds, we noted that receipts are not issued for all money received. We recommend that a receipt is issued to the person turning in the money for all money received.
- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.

• **Muhlenberg North Middle School**

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.
- During our procedures over the bank reconciliation, we noted that there is a large amount of old outstanding checks. We recommend the outstanding check list be reviewed and old checks voided.

• **Muhlenberg South Middle School**

- During our procedures over disbursements, we noted that the purchase order is not signed by the person requesting the purchase. We recommend that the purchase order is completed and signed by the person requesting the purchase.

• **Muhlenberg County High School - West Campus**

- During our inquiries regarding the activity funds, we noted that duties of the ticket seller and ticket taker are not segregated and tickets are not torn in half by the ticket taker. We recommend that the duties of ticket seller and ticket taker are segregated to ensure proper controls over gate receipts.
- During our procedures over ticket sales, we noted that the beginning and ending tickets are not attached to the ticket sales report. We recommend that the beginning and ending tickets are attached to the ticket sales reports in order for the ticket numbers to be reconciled between events and the ticket sales reports to be reviewed.
- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

• **Muhlenberg County High School - East Campus**

- During our procedures over receipts, we noted one receipt that did not have proper documentation of dual counting of the deposit and was not deposited timely. We recommend all deposits are counted and initialed by two individuals and deposited to the bank timely.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases. We recommend the packing slip is initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.

Muhlenberg County School District
Management Responses
June 30, 2013

Prior Year

Central Office

- Invoices are always tightly monitored for proper approval.
- Stricter controls will be placed on items over \$20,000 in the future to determine if they need to be bid out or not.
- When invoices are paid the documentation is always attached to that check. Marking the invoice paid would not prevent a duplicate invoice from being received. We are not having an issue with duplicate payments.
- Employees not listed on the salary schedule will be reviewed. Finance Officer's salary has always been in compliance with Board direction. An official salary schedule was adopted to clear this up.
- Bank reconciliations are tied to the penny every month. However, there was an issue with the amount shown each month for the food service account. That issue had been corrected. Bank reconciliations are now being reviewed by someone other than the preparer and initialed and dated by that person.
- The food service bank account referred to is transferred over into the districts main general fund on a monthly basis. We did transfer the food service balance to the Board's primary bank account with only a very small balance remaining in the food service account. That balance will be maintained at a level less than \$20,000.
- The two banking accounts noted will be reviewed for closing during the upcoming fiscal year. The two accounts noted have little activity and always have a clear audit trail.
- The expenses noted from general fund for food service are monitors at some of the locations. That procedure will be reviewed but food service has indicated that is not an allowable expense for them to pay because this is more of a custodial function and not involved in the preparation of food.
- We will review the purchase order threshold.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2013

All Schools

- School activity funds purchases will be for expenses that will have a benefit to students. We have had auditor Redbook trainings on site to help us in learning the revised rules on use of activity fund monies.

Greenville Elementary School

- We will contact vendors to request itemized inventory regarding income received.

South Elementary School

- We will review expenditures to see that they benefit students.
- Sales monies are now being collected daily.

Longest Elementary School

- School activity funds being used will be monitored for student use.

Muhlenberg North Middle School

- All checks will be signed by two authorized individuals as required.
- We will review for ticket sales to be rotated on colors between events.

Muhlenberg South Middle School

- MSMS is making sure that disbursements from student funds be used only to benefit students.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2013

Muhlenberg County High School – East Campus

- Care will be taken to use student generated funds for students only.
- We will contact the vendor to request a monthly vendor report to match commission checks for vending machines.

Muhlenberg County High School – West Campus

- All money is secure until a ticket sale deposit is made. Will strive to deposit the following day, especially if over \$100.
- We have asked for detailed report to match with commission check to no avail. We will work to comply with recommendation.
- Deposits over \$100 will be made on a daily basis.

Current Year

Central Office

- Cell phone bills are typically monitored and approved accordingly. We will monitor closely to ensure that happens.
- We will review federal cash request to make sure they agree with the MUNIS accounting records.
- The Board and the Board Finance Corporation read resolutions approving the energy performance project and the plan of financing at its August 13, 2013 board meeting. The plan of financing was approved in the BG-1 noting the sale of bonds. The minutes didn't specifically point out the bond sale, only that the BG-1 was approved.

All Schools

- Paid invoices will be marked as paid to avoid possible double payments of invoices.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2013

Bremen Elementary School

- Many times we receive items that do not have a packing list. The best option I have is to mark the invoice the date I receive the merchandise. We will also make it a practice to mark PAID on all paid invoices.

Greenville Elementary School

- We currently copy the School Activity Fund Fundraiser Worksheet (F-SA-2B) and give one to the teacher at the time they get the Fundraiser Approval Form. The worksheet is completed by the teacher and filed with the original signed Fundraiser Approval Form.
- We have instructed all staff to forward signed packing slips to the bookkeeper so that she can attach to purchase request along with invoice.

Central City Elementary School

- In a lot of cases we do not receive packing slips. I never pay a bill until I am sure we have received all the merchandise.
- We will review disbursements from the general fund for benefit to students.

Longest Elementary School

- Longest Elementary does not have a “school credit card” we only have a Kroger charge card. However, sign in/out forms will be maintained for this card.
- We will meet with organizations to retain budgets and receipts.
- Longest is now issuing receipts for all money received.
- Longest now has a designated person to check all deliveries and compare packing slips to ensure all items are received.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2013

Muhlenberg North Middle School

- Packing slips were not initialed because we were not informed that were required until materials were already submitted for the audit. Also, packing slips are not often included in many orders.
- Checks will be reviewed and any old checks will be voided.

Muhlenberg South Middle School

- We will comply with the auditor's recommendation and have the person requesting the PO to also sign off on it.

Muhlenberg County High School-West Campus

- We have begun utilizing a separate ticket taker and seller at ball games.
- We will be more diligent at attaching beginning and ending tickets to ticket reports.
- We always strive to ensure all student generated funds are spent on students.

Muhlenberg County High School-East Campus

- We will be more diligent about dual accounting.
- We will begin to keep and track packing slips to the best of our ability.