

Revised Audit
Received: 2/6/2015

MADISON COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2014

MADISON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Madison County School District
Richmond, 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 Madison County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the accompanying 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; 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 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 on 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, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the District adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62* during the fiscal year.

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 3 through 10 and 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining financial statements, school schedules 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 accounting standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2014, on our consideration of Madison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison County School District's internal control over financial reporting and compliance.

Stiles, Carter & Associates

Certified Public Accountants
 Elizabethtown, Kentucky
 September 29, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Madison County School District
Management's Discussion and Analysis (MD&A)
June 30, 2014

As management of the Madison 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, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$19.65 million, including \$2.47 million in construction projects.
- The district constructs and renovates facilities with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- In fiscal 2014, the White Hall Elementary Roof construction project was completed.
- Four security vestibule projects were initiated & completed in fiscal 2014. No bonds were issued for the projects.
- Renovation projects were initiated in fiscal 2014 for White Hall, Daniel Boone and Kit Carson Elementary Schools. Bonds issued in FY 2015, fund a portion of the projects.
- The district purchased an existing building in fiscal 2014 for a new central office. The facility will be renovated in fiscal 2015.
- The General Fund had \$66.63 million in receipts, net of on-behalf payments from the state and interfund transfers. These receipts primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. The beginning balance included \$0.19 million encumbered from fiscal 2013 and \$1.1 million from prior years' commitments. Excluding interfund transfers and net of on-behalf payments, there were \$64.15 million in General Fund expenditures.
- The district committed \$0.8 million of 2013-14 General Fund money for roofing and \$0.18 million for equipping new construction projects. The \$1.1 million included in the beginning balance from prior years' commitments remains available for future obligations.
- General Fund dollars were required to supplement transportation expenses unfunded by the state.

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) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

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

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

The government-wide financial statements can be found in the table of contents of this report.

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

The basic governmental fund financial statements can be found in the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the table of contents of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of Madison County Schools, assets exceeded liabilities by \$81.86 million for Governmental Activities, and \$2.10 million for Business Type Activities as of June 30, 2014.

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 is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	21.89	25.27	1.04	0.96	22.93	26.23
Capital Assets	162.61	159.72	1.41	1.16	164.02	160.88
Total Assets	184.50	184.99	2.45	2.12	186.95	187.11
Deferred Outflows	-	0.92			-	0.92
Long-term Debt	97.32	94.73	-	-	97.32	94.73
Other Liabilities	8.91	8.40	0.03	0.02	8.94	8.42
Total Liabilities	106.23	103.13	0.03	0.02	106.26	103.15
Net Position						
Net investment in capital assets	60.68	61.00	1.41	1.16	62.09	62.16
Restricted	13.46	7.74	0.14	-	13.60	7.74
Unrestricted	2.86	14.04	0.88	0.94	3.74	14.98
Total Net Position	\$ 77.00	\$ 82.78	\$ 2.43	\$ 2.10	\$ 79.43	\$ 84.88

GOVERNMENTAL ACTIVITIES

For fiscal 2014, the district had an increase in net position of \$5.45 million. This is primarily due to the increase in non-capital assets.

Table 2
Statement of Activities

	Governmental Activities		Business-type Activities	
	2013	2014	2013	2014
Revenue				
Charges for services	\$ -	\$ 31,713	\$ 1,590,081	\$ 1,503,569
Operating grants and contributions	32,945,515	27,470,480	3,840,190	3,749,625
Capital grants and contributions	4,447,828	4,373,551		
General revenues & extraordinary item	64,703,432	73,493,602	1,824	994
Total revenue	<u>102,096,775</u>	<u>105,369,346</u>	<u>5,432,095</u>	<u>5,254,188</u>
Expenses				
Instruction	61,768,777	60,974,077	-	-
Student support services	5,628,389	5,401,329	-	-
Instructional staff support	5,176,864	4,557,446	-	-
District administration	2,633,388	1,127,877	-	-
School administration	4,364,493	4,319,115	-	-
Business	1,410,815	1,346,976	-	-
Plant operation & maintenance	7,680,763	7,974,608	-	-
Student transportation	7,707,461	7,675,560	-	-
Non-instructional	913,308	843,143	-	-
Building improvement	-	-	-	-
Unallocated depreciation & amortization	-	-	-	-
Interest on long-term debt	3,993,847	4,221,581	-	-
Loss on disposal of general assets	-	-	-	-
Food service operations	-	-	5,735,796	5,584,028
Total expenses	<u>101,278,105</u>	<u>98,441,712</u>	<u>5,735,796</u>	<u>5,584,028</u>
Change in net position	818,670	6,927,634	(303,701)	(329,840)
Net position, beginning	<u>76,178,494</u>	<u>76,997,164</u>	<u>2,730,621</u>	<u>2,426,920</u>
Restatement for adoption of GASB 65		<u>(1,145,112)</u>		
Net position, beginning as restated	<u>76,178,494</u>	<u>75,852,052</u>	<u>2,730,621</u>	<u>2,426,920</u>
Net position, ending	<u>\$ 76,997,164</u>	<u>\$ 82,779,686</u>	<u>\$ 2,426,920</u>	<u>\$ 2,097,080</u>

BUSINESS-TYPE ACTIVITIES

Food service lunchroom sales decreased from the prior year. Capital assets, net of depreciation, decreased from the previous year contributing to a \$329,840 decrease in net position.

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$160.88 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net decrease (including additions and deductions) of \$3.14 million, or 1.95%, over last year. This decrease is due primarily to the decrease in buildings and improvements due to depreciation. There was minimal change in the actual cost of buildings and improvements.

Table 3
Capital Assets at Year-End
(Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land	\$ 4.23	\$ 4.21	\$ -	\$ -	\$ 4.23	\$ 4.21
Buildings & Improvements	150.58	147.05	-	-	150.58	147.05
Technology Equipment	1.72	0.98	0.01	0.01	1.73	0.99
Vehicles	3.79	3.98	-	-	3.79	3.98
General Equipment	2.04	1.80	1.40	1.15	3.44	2.95
Construction in Progress	0.25	1.70	-	-	0.25	1.70
Totals	<u>\$ 162.61</u>	<u>\$ 159.72</u>	<u>\$ 1.41</u>	<u>\$ 1.16</u>	<u>\$ 164.02</u>	<u>\$ 160.88</u>

DEBT

No bonds were issued in fiscal 2014.

Table 4
Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	<u>2013</u>	<u>2014</u>
General Obligation Bonds	\$ 105.21	\$ 99.70
Total Obligations	<u>\$ 105.21</u>	<u>\$ 99.70</u>

COMMENTS ON BUDGET COMPARISONS

- Actual General Fund revenues exceeded the budget by \$247,332, or approximately 0.3 percent. This majority of the variance is due to the increased tax revenue of \$214,004. The line item that varied most significantly was Franchise Tax, with a \$122,740 increase.
- Actual General Fund expenditures were \$9.2 million less than the final budget. This is the result of various factors, including a contingency of \$5.68 million which was intended to remain unspent and carryover to the new year, as the beginning balance. Additionally, the site-based carryover was approximately \$236,000 and funds assigned for purchase obligations were approximately \$681,000. General Fund expenditures for instructional salaries were under budget as a result of grants being used where possible to offset General Fund expenses and employee leaves without pay. With the unknowns of year-end costs, including insurances, savings were generated in the areas of instructional supplies/equipment and plant operations/maintenance. General Fund budgeted expenditures compared to actual varied significantly in District Administrative Support. Workers compensation, unemployment and dental reimbursements are budgeted in District Administrative Support; however, expenditures are made from the same function as the related salaries. Consequently, throughout the financial report, employee benefits exceed the budget in each function (net of on-behalf) except District Administrative Support. Additionally, an adjustment was made to eliminate the short-term liability for sick leave payable for GASB compliance, which also contributed to the variance in District Administrative Support

The following table presents a summary of revenue and expenditures for the fiscal year ended June 30, 2014, for selected funds.

Table 5
Revenues & Expenditures
(in Millions)

	General Fund	Special Revenue	Construction	Other Governmental Funds
Revenues:				
Local Sources	\$ 27.32	\$ 0.16	\$ 0.01	\$ 7.44
State Sources	53.76	4.65	-	4.04
Federal Sources	0.43	7.11	-	0.34
Total Revenues	81.51	11.92	0.01	11.82
Expenses:				
Instruction	47.78	8.18	-	0.01
Student Support	4.97	0.42	-	-
Instructional Support	3.40	1.15	-	-
District Administration	0.94	-	-	-
School Administration	4.28	-	-	-
Business Support	1.33	0.02	-	-
Plant Operations	7.88	0.08	-	-
Student Transportation	7.33	0.52	-	-
Community Support	0.02	0.83	-	-
Facilities Acquisition & Construction	1.11	-	0.74	0.10
Debt Service	-	-	-	9.47
Total Expenses	79.04	11.20	0.74	9.58
Revenue Over (Under) Expenses	\$ 2.47	\$ 0.72	\$ (0.73)	\$ 2.24

THE DISTRICT'S FUNDS

As the District completed the year, its General Fund reflected a fund balance of \$16.10 million, which is more than last year's fund balance of \$13.91 million. This increase is due to the FY2014 balance including \$1.23 million committed for the district's potential future obligation with the Kentucky School Boards Insurance Trust and \$0.98 million committed for the purchase of school buses in fiscal 2015. It is important to note that a portion of the fiscal 2014 balance is reserved for prior year encumbrances (\$0.68 million), site-based councils (\$0.24 million) and sick leave payable (\$0.31 million) along with \$0.475 million that was committed in FY2011 for future salaries. In FY2008, we were able to reserve \$950,000 for the opening of B. Michael Caudill Middle School in FY2010. Those funds were not required for that purpose and remain reserved for future capital projects. In FY2009, FY2010, FY2011 and FY2012 we reserved \$958,519, \$950,000, \$975,000 and \$1,000,000 for future capital projects, which continue to be reserved. Additionally, funds were committed in FY14 for roofing (\$0.8 million) and equipping new construction projects (\$0.18). Unreserved Fund Balance increased \$0.35 million to \$6.03 million. This was due to a combination of factors, including increased revenues and reduction in expenditures.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2014-2015 with a contingency of 7.79% of the General Fund budget, net of on-behalf payments from the state and interfund transfers. It is important to note that the tentative budget was based on a SEEK base of \$3,911 per pupil. This rate comes after five years of a flat base and reductions due to budget shortfalls. The SEEK base was \$3,866 in both 2008-2009 and 2009-2010, increased \$2 to \$3,868 for 2010-2011 and increased \$35 to \$3,903 in 2011-2012. However, in fiscal years 2011 and 2012, we experienced mid-year cuts due to the state's inability to fund their SEEK obligation. The rate declined to \$3,833 in fiscal 2013 and \$3,827 in fiscal 2014.

Issues which will impact future budgets include:

- The inability of the state to restore SEEK funding to the necessary level
- Federal funding not maintaining the pace of mandated pay and fringe benefit increases
- Reductions in special education student counts, resulting in reduced funding, coupled with increased needs
- Insufficient funding of the state transportation formula
- The cumulative effect of the historic loss of local funding due to the 4% cap on increases in property tax revenue imposed by House Bill 44
- Property tax assessments in recent years increasing less than 4% combined with a public sentiment to forgo property tax rate increases
- Increasing retirement costs to be borne by districts will be significant
- Increased costs of risk management and the unknown costs associated with the Affordable Care Act

In order to meet the demands of a growing student population, we opened B. Michael Caudill Middle School in 2009-2010 and Farristown Middle School in 2011-2012. The transition to full-day kindergarten necessitated the closing of Mayfield Elementary at the end of fiscal 2014 and the opening of Madison Kindergarten Academy in fiscal 2015 to better utilize the facility's capacity. Also, the relocation of Richmond area preschool classrooms to Bellevue in fiscal 2015 provides much needed additional classroom space at area elementary schools. Continued growth will necessitate the use of Capital Outlay funds for their intended purpose. As a result, we have an increasing need to use Capital Outlay funds for their intended purpose rather than to offset General Fund expenditures for plant operation and maintenance costs, as we did for several years.

CONTACTING THE MADISON COUNTY SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, creditors, and other users with an overview of the Madison County School District's finances, fiscal practices and responsibility. If you have questions or need additional information, please contact the District's Finance Officer at PO Box 768, Richmond, KY 40476.

BASIC FINANCIAL STATEMENTS

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash, cash equivalents and investments	\$ 22,975,964	\$ 776,898	\$ 23,752,862
Inventory		126,926	126,926
Receivables:			
Accounts		31,231	31,231
Taxes-current	1,095,130		1,095,130
Taxes-delinquent	84,160		84,160
Other receivables	206,861		206,861
Intergovernmental-State	59,089		59,089
Intergovernmental-Indirect Federal	847,824	25,193	873,017
Total Current Assets	25,269,028	960,248	26,229,276
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	5,541,941		5,541,941
Depreciable capital assets, net of accumulated depreciation	154,174,214	1,158,419	155,332,633
Total Noncurrent Assets	159,716,155	1,158,419	155,332,633
Total Assets	184,985,183	2,118,667	181,561,909
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	925,184		925,184
Total Deferred Outflows of Resources	925,184	-	925,184
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	1,118,142	21,587	1,139,729
Accrued payroll and related expenses	18,929		18,929
Unearned revenue	286,796		286,796
Bond obligations	5,660,000		5,660,000
KSBIT	378,763		378,763
Compensated absences	250,000		250,000
Interest payable	687,094		687,094
Total Current Liabilities	8,399,724	21,587	8,421,311
<u>Noncurrent Liabilities</u>			
Bond obligations	93,059,480		93,059,480
KSBIT	850,898		850,898
Compensated absences	820,579		820,579
Total Noncurrent Liabilities	94,730,957	-	94,730,957
Total Liabilities	103,130,681	21,587	103,152,268
<u>Net Position</u>			
Net investment in capital assets	60,996,675	1,158,419	62,155,094
Restricted	7,743,328		7,743,328
Unrestricted	14,039,683	938,661	14,978,344
Total Net Position	\$ 82,779,686	\$ 2,097,080	\$ 84,876,766

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 60,974,077	\$ 31,713	\$ 19,835,843	\$ -	\$ (41,106,521)	\$ -	\$ (41,106,521)
Support services:							
Student	5,401,329		1,534,668		(3,866,661)		(3,866,661)
Instruction staff	4,557,446		1,735,240		(2,822,206)		(2,822,206)
District administrative	1,127,877		72,920		(1,054,957)		(1,054,957)
School administrative	4,319,115		957,486		(3,361,629)		(3,361,629)
Business	1,346,976		349,392		(997,584)		(997,584)
Plant operation and maintenance	7,974,608		760,171		(7,214,437)		(7,214,437)
Student transportation	7,675,560		1,399,718		(6,275,842)		(6,275,842)
Community service activities	843,143		825,042		(18,101)		(18,101)
Facility acquisition and construction				3,560,357	3,560,357		3,560,357
Interest on long-term debt	4,221,581			813,194	(3,408,387)		(3,408,387)
Total Governmental Activities	98,441,712	31,713	27,470,480	4,373,551	(66,565,968)	-	(66,565,968)
Business-Type Activities:							
Food service	5,584,028	1,503,569	3,749,625			(330,834)	(330,834)
Total Business-Type Activities	5,584,028	1,503,569	3,749,625	-	-	(330,834)	(330,834)
Total Primary Government	\$104,025,740	\$ 1,535,282	\$ 31,220,105	\$ 4,373,551	(66,565,968)	(330,834)	(66,896,802)
General Revenues:							
Taxes:							
Property taxes							
					26,377,532		26,377,532
Motor vehicle taxes							
					2,561,997		2,561,997
Utility taxes							
					5,280,032		5,280,032
Revenue in lieu of taxes							
					162,710		162,710
Investment earnings							
					20,522	994	21,516
State and formula grants							
					38,898,338		38,898,338
Miscellaneous							
					229,187		229,187
Extraordinary item - KSBIT							
					(36,716)		(36,716)
Total general revenues and extraordinary item							
					73,493,602	994	73,494,596
Change in net position							
					6,927,634	(329,840)	6,597,794
Net position - beginning, as previously reported							
					76,997,164	2,426,920	79,424,084
Restatement for adoption of GASB 65							
					(1,145,112)		(1,145,112)
Net position - beginning, as restated							
					75,852,052	2,426,920	78,278,972
Net position - ending							
					\$ 82,779,686	\$ 2,097,080	\$ 84,876,766

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

MADISON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash, cash equivalents and investments	\$ 15,558,024	\$ 487,295	\$ 4,709,555	\$ 2,221,090	\$ 22,975,964
Receivables:					
Taxes - current	1,072,612			22,518	1,095,130
Taxes - delinquent	84,160				84,160
Other receivables	157,142	48,084	226	1,409	206,861
Intergovernmental - State		59,089			59,089
Intergovernmental - Indirect Federal		847,824			847,824
Total Assets	\$ 16,871,938	\$ 1,442,292	\$ 4,709,781	\$ 2,245,017	\$ 25,269,028
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 751,176	\$ 276,803	\$ 85,492	\$ 4,671	\$ 1,118,142
Accrued payroll and related expenses	18,929				18,929
Unearned revenue		286,796			286,796
Total Liabilities	770,105	563,599	85,492	4,671	1,423,867
Fund Balances					
Restricted		878,693	4,624,289	2,240,346	7,743,328
Committed	9,141,716				9,141,716
Assigned	681,065				681,065
Unassigned	6,279,052				6,279,052
Total Fund Balances	16,101,833	878,693	4,624,289	2,240,346	23,845,161
Total Liabilities and Fund Balances	\$ 16,871,938	\$ 1,442,292	\$ 4,709,781	\$ 2,245,017	\$ 25,269,028

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2014

Total fund balance per fund financial statements	\$ 23,845,161
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	159,716,155
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	925,184
Bonds payable (net of discounts/premiums)	(98,719,480)
Interest payable	(687,094)
Compensated absences	(1,070,579)
KSBIT	<u>(1,229,661)</u>
Net position for governmental activities	<u>\$ 82,779,686</u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 19,098,575	\$ -	\$ -	\$ 7,278,957	\$ 26,377,532
Motor vehicle	2,561,997				2,561,997
Utilities	5,280,032				5,280,032
Earnings on investments	13,026	671	1,503	5,322	20,522
Other local revenues	182,650	160,289		166,082	509,021
Revenue in lieu of taxes	162,710				162,710
Intergovernmental - State	53,785,854	4,646,687		4,037,480	62,470,021
Intergovernmental - Indirect Federal	307,012	7,109,529			7,416,541
Intergovernmental - Direct Federal	119,934			336,071	456,005
Total Revenues	81,511,790	11,917,176	1,503	11,823,912	105,254,381
Expenditures:					
Instruction	47,785,770	8,182,618		4,671	55,973,059
Support services:					
Student	4,966,830	414,893			5,381,723
Instruction staff	3,399,002	1,152,850			4,551,852
District administrative	939,911				939,911
School administrative	4,276,919				4,276,919
Business	1,326,281	20,000			1,346,281
Plant operation and maintenance	7,879,870	77,205			7,957,075
Student transportation	7,332,623	521,859			7,854,482
Community service activities	18,101	825,042			843,143
Other non-instruction					-
Facilities acquisition and construction	1,113,651		735,962	105,593	1,955,206
Debt service:					
Principal				5,510,000	5,510,000
Interest				3,963,302	3,963,302
Total Expenditures	79,038,958	11,194,467	735,962	9,583,566	100,552,953
Excess (Deficit) of Revenues over Expenditures	2,472,832	722,709	(734,459)	2,240,346	4,701,428
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	5,756				5,756
Transfers in	4,317	160,301	3,235,630	8,660,108	12,060,356
Transfers out	(291,581)	(4,317)		(11,764,458)	(12,060,356)
Total Other Financing Sources (Uses)	(281,508)	155,984	3,235,630	(3,104,350)	5,756
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	2,191,324	878,693	2,501,171	(864,004)	4,707,184
Fund Balance, July 1, 2013	13,910,509	-	2,123,118	3,104,350	19,137,977
Fund Balance, June 30, 2014	\$ 16,101,833	\$ 878,693	\$ 4,624,289	\$ 2,240,346	\$ 23,845,161

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

Net change in total fund balances per fund financial statements	\$ 4,707,184
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(2,600,170)
Bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	5,510,000
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(296,723)
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	36,716
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(429,373)</u>
Change in net position of governmental activities	<u><u>\$ 6,927,634</u></u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2014

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash, cash equivalents and investments	\$ 776,898
Accounts receivable	31,231
Intergovernmental - Indirect Federal	25,193
Inventory	<u>126,926</u>
Total Current Assets	960,248
<u>Noncurrent Assets</u>	
Depreciable capital assets, net of accumulated depreciation	<u>1,158,419</u>
Total Noncurrent Assets	<u>1,158,419</u>
Total Assets	<u>2,118,667</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>21,587</u>
Total Current Liabilities	<u>21,587</u>
<u>Net Position</u>	
Net investment in capital assets	1,158,419
Unrestricted	<u>938,661</u>
Total Net Position	<u><u>\$ 2,097,080</u></u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2014

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 1,503,569
Other operating revenues	
Total Operating Revenues	1,503,569
Operating Expenses:	
Salaries and wages	2,347,089
Materials and supplies	2,843,252
Depreciation	251,274
Other operating expenses	142,413
Total Operating Expenses	5,584,028
Operating loss	(4,080,459)
Non-Operating Revenues (Expenses):	
Federal grants	3,048,611
Donated commodities	324,357
State on-behalf payments	326,356
State grants	50,301
Interest income	994
Total Non-Operating Revenues (Expenses)	3,750,619
Changes in net position	(329,840)
Net Position, July 1, 2013	2,426,920
Net Position June 30, 2014	\$ 2,097,080

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2014

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 1,478,745
Cash paid to/for:	
Employees	2,020,733
Supplies	2,513,188
Other activities	142,413
	<u>(3,197,589)</u>
Net Cash Used by Operating Activities	(3,197,589)
Cash flows from Non-Capital Financing Activities	
Federal grants	3,344,836
State grants	50,301
	<u>3,395,137</u>
Net Cash Provided by Non-Capital Financing Activities	3,395,137
Receipt of interest income	994
	<u>994</u>
Net Cash Provided by Investing Financing Activities	994
Net increase in cash and cash equivalents	198,542
Balances, beginning of year	<u>578,356</u>
Balances, end of year	<u>\$ 776,898</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (4,080,459)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	251,274
State on-behalf payments	326,356
Donated commodities	324,357
Change in assets and liabilities:	
Accounts receivable	(24,824)
Inventory	11,375
Accounts payable	(5,668)
	<u>(3,197,589)</u>
Net cash used by operating activities	\$ (3,197,589)
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 324,357</u>
State on-behalf payments	<u>\$ 326,356</u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 804,315
Receivables	<u>6,693</u>
Total Assets	<u><u>\$ 811,008</u></u>
Liabilities	
Accounts payable	\$ 21,876
Due to student groups	<u>789,132</u>
Total Liabilities	<u><u>\$ 811,008</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Madison County School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Madison County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Madison County School District. 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.

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 or 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. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the Madison County School District Finance Corporation, (the "Corporation"). 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 Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - MADISON County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Madison County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) The District Activity Fund is a Special Revenue Fund type and is used to account for funds received at the school level.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

Proprietary Funds

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

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

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Funds

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

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

BASIS OF ACCOUNTING

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

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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

C. BUDGETARY POLICIES

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. INVENTORIES

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

G. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period are allocated between or among accounting periods in the governmental funds.

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets greater than \$5,000 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts and issuance cost are amortized over the life of the bonds while deferred loss on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. COMPENSATED ABSENCES

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

K. ACCOUNTING ESTIMATES

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

L. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 54 in fiscal year 2011. Required disclosure is reported in Note 9.

In June 2010, the GASB issued Statement 59, *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 59 in fiscal year 2011. The adoption of GASB 59 does not have any impact on the District's financial statements.

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

from third parties. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 60 in fiscal year 2013. The District does not have any SCAs and therefore the adoption of GASB 60 docs not have any impact on the District's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 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. This statement is effective for periods beginning after June 15, 2012 and the District adopted GASB 61 in fiscal year 2013.

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 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. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 62 in fiscal year 2013. The adoption of GASB 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, and the District adopted GASB 63 in fiscal year 2013.

In June 2011, the GASB issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. GASB 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for periods beginning after June 15, 2011 and the District adopted GASB 64 in fiscal year 2013. The adoption of GASB 64 does not have any impact on the District's current financial statements.

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012 and the District adopted GASB 65 in fiscal year 2014 which resulted in a restatement of beginning net position of \$1,145,112 for bond issuance costs previously being amortized.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012 and the District adopted GASB 66 in fiscal year 2014.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this statement.

In March 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.601 per \$100 valuation for real property, \$.601 per \$100 valuation for business personal property and \$.558 per \$100 valuation for motor vehicles.

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

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's policy is to have all deposits secured by pledged securities. At June 30, 2014, \$1,310,686 of the District's bank balance of \$10,503,982 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

Investments

As of June 30, 2014, the District had the following investments and maturities:

	<u>Fair Value</u>	<u>Average Credit Quality/Ratings (1)</u>	<u>Less Than 1</u>
Money Market Mutual Funds	\$ 17,868,879	AAA	\$ 17,868,879

(1) Ratings are provided where applicable to indicate associated *Credit Risk*. N/A indicates not applicable. Ratings are from Standard & Poor's.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Finance Director. Investing policies comply with State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – CONTINUED

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics: 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended; 2. The management company of the investment company shall have been in operation for at least five (5) years; and 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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. **Custodial Credit Risk** is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 160,301
General	Construction	Construction	131,280
Special Revenue	General	Indirect Costs	4,317
Nonmajor Governmental	Nonmajor Governmental	Debt Service	8,660,108
Nonmajor Governmental	Construction	Construction	3,104,350
Nonmajor Governmental	Nonmajor Governmental	Debt Service	1,150,412

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 3,791,887	\$ 200,000	\$ (150,000)	\$ 3,841,887
Construction in progress	253,534	1,909,201	(462,681)	1,700,054
Total Capital Assets Not Being Depreciated	4,045,421	2,109,201	(612,681)	5,541,941
Capital Assets Being Depreciated:				
Land improvements	3,857,751			3,857,751
Buildings and improvements	191,710,881	462,681	(225,000)	191,948,562
Technology equipment	7,778,861	23,588	(1,028,978)	6,773,471
Vehicles	14,174,569	981,523	(218,047)	14,938,045
General equipment	4,314,437	62,138	(5,340)	4,371,235
Total Capital Assets Being Depreciated at Historical Cost	221,836,499	1,529,930	(1,477,365)	221,889,064
Less Accumulated Depreciation For:				
Land improvements	3,419,983	73,481		3,493,464
Buildings and improvements	41,132,204	3,862,249	(96,840)	44,897,613
Technology equipment	6,063,957	735,337	(1,012,165)	5,787,129
Vehicles	10,379,812	799,319	(218,047)	10,961,084
General equipment	2,272,916	306,234	(3,590)	2,575,560
Total accumulated depreciation	63,268,872	5,776,620	(1,330,642)	67,714,850
Total Other Capital Assets, net	158,567,627	(4,246,690)	(146,723)	154,174,214
Governmental Activities Capital Assets - Net	\$ 162,613,048	\$ (2,137,489)	\$ (759,404)	\$ 159,716,155
Business-Type Activities				
Capital Assets Being Depreciated:				
Technology equipment	\$ 49,365	\$ -	\$ (14,952)	\$ 34,413
Food service equipment	3,422,093			3,422,093
Totals at historical cost	3,471,458	-	(14,952)	3,456,506
Less Accumulated Depreciation For:				
Technology equipment	\$ 41,213	\$ 3,644	\$ (14,952)	\$ 29,905
Food service equipment	2,020,552	247,630		2,268,182
Total accumulated depreciation	2,061,765	251,274	(14,952)	2,298,087
Business-Type Activities Capital Assets - Net	\$ 1,409,693	\$ (251,274)	\$ -	\$ 1,158,419

Depreciation was charged to governmental functions as follows:

Instruction	\$ 4,784,076
Student support	39,135
Instructional staff	11,373
District administration	16,872
School administration	42,197
Business support	695
Plant	79,671
Transportation	802,601
	<u>\$ 5,776,620</u>

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 6 – RISK MANAGEMENT

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

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 7 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$105,205,000	\$ -	\$ 5,510,000	\$ 99,695,000	\$ 5,660,000
Less Discounts and Premiums	(1,056,819)		81,299	(975,520)	-
Total Bonds and Leases Payable	104,148,181	-	5,591,299	98,719,480	5,660,000
Other Liabilities:					
KSBIT	1,266,377		36,716	1,229,661	378,763
Compensated absences	1,149,485	36,297	115,203	1,070,579	250,000
Total Other Liabilities	2,415,862	36,297	151,919	2,300,240	628,763
Total Governmental Activities Long-Term Liabilities	<u>\$106,564,043</u>	<u>\$ 36,297</u>	<u>\$ 5,743,218</u>	<u>\$ 101,019,720</u>	<u>\$ 6,288,763</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences and claims.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Bond Liabilities

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Proceeds</u>	<u>Rate</u>
2004	\$ 14,725,000	2.00% - 4.375%	2008B	7,585,000	3.00% - 4.625%
2004B	3,235,000	2.20% - 3.70%	2009	9,995,000	4.35% - 4.60%
2004C	4,315,000	2.20% - 3.75%	2009R	2,475,000	1.00% - 3.00%
2005	15,295,000	3.00% - 4.00%	2010	22,800,000	0.70% - 5.60%
2006	5,880,000	4.00% - 4.25%	2010R	10,295,000	0.40% - 2.50%
2006B	2,350,000	3.88%	2011	4,040,000	1.00% - 4.375%
2008	22,820,000	3.25% - 4.375%	2013R	13,500,000	2.00% - 2.375%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the MADISON 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 “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014, for debt service (principal and interest) are as follows:

Year	Principal	Interest	KSFCC Participation	U.S. Treasury Participation	District's Portion
2015	\$ 5,660,000	\$ 3,804,754	\$ 464,835	\$ 357,775	\$ 8,999,919
2016	5,810,000	3,641,787	460,124	352,287	8,991,663
2017	5,935,000	3,474,089	426,304	346,107	8,982,785
2018	6,060,000	3,298,922	382,798	338,748	8,976,124
2019	6,210,000	3,105,791	347,856	329,330	8,967,935
2020-2024	33,800,000	12,160,656	1,310,585	1,466,370	44,650,071
2025-2029	32,845,000	5,086,636	671,118	915,035	37,260,518
2030-2031	3,375,000	196,540		51,352	3,571,540
	<u>\$ 99,695,000</u>	<u>\$ 34,769,175</u>	<u>\$ 4,063,620</u>	<u>\$ 4,157,004</u>	<u>\$ 130,400,555</u>

NOTE 8 – PENSION PLANS

Plan Descriptions

The Madison 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), cost-sharing multiple-employer defined benefit plans. 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 by calling (502) 573-3266. 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.

Funding Policy

KTRS plan members are required to contribute 11.355% of their covered salary. 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 is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008 of annual covered payroll. The rate for CERS fiscal year 2014, 2013 and 2012 was 18.89%, 19.55% and 18.96% 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, 2014, 2013 and 2012 were \$2,316,216, \$2,294,874 and \$2,289,536, respectively, equal to the required contributions for each year.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 8 – PENSION PLANS – CONTINUED

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$5,166,706, \$5,282,921 and \$5,225,035 to KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the years ended June 30, 2014, 2013 and 2012 were \$1,137,673, \$973,163 and \$935,405.

Medical Insurance Plan

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

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

Funding Policy

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. Member contributions are 2.25% of salary. 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, local school district employers pay 1.5% of members' salary for the 2014 fiscal year.

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 Plans, 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 on these financial statements.

NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2014, there were no nonspendable fund balances.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 9 – FUND BALANCES – CONTINUED

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, 2014, the District had \$878,693 restricted for grants in the special revenue fund, \$161,411 restricted for district activities in the District Activity Fund, \$1,021,637 restricted for capital projects in the SEEK Capital Outlay Fund, \$1,057,298 restricted for capital projects in the FSPK Fund and \$4,624,289 restricted for capital projects in the Construction Fund.

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 had the following commitments at June 30, 2014 in the General Fund - \$235,941 for SBDM carryforward, \$311,466 for compensated absences, \$5,908,125 for construction, \$1,229,661 for KSBIT assessment, \$475,000 for personnel and \$981,523 for buses.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The District had \$681,065 of assignments related to encumbrances recorded in the General Fund. Assigned fund balance also includes (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. The District had the no additional assignments at June 30, 2014.

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.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 10 – COMMITMENTS AND 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 based upon the grantor's review, the funds are considered not to have 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.

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have 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

MADISON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 10 – COMMITMENTS AND CONTINGENCIES – CONTINUED

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.

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 basic financial statements as a result of the cases presently in progress. Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss.

The District also has construction commitments for on-going projects at June 30, 2014.

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$862,353. In August 2014, the District received an invoice for \$1,229,661 which is the amount expected to satisfy the claim. The District paid \$378,363 in August 2014 will pay \$425,649 in September 2015 and September 2016. The amount paid in August 2014 is recorded as a current liability in the Statement of Net Position and the remaining balance is classified as noncurrent, as it is expected to be paid by June 30, 2014; however, the assessment was not due at June 30, 2014, for the fund financial statements. The item is also an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence.

NOTE 11 – DEFICIT OPERATING BALANCES

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

FSPK Fund	\$ 1,042,213
Food Service Fund	329,840

NOTE 12 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount recognized for the year ended June 30, 2014 was \$15,690,995, recorded as follows \$14,887,516 in the General Fund, \$477,123 recorded in the Debt Service Fund and \$326,356 in the Food Service Fund.

NOTE 13 – SUBSEQUENT EVENTS

On August 1, 2014, the District issued \$10,495,000 in School Building Revenue Bonds at interest rates ranging from 2% to 3.625%. Also, on August 1, 2014, the District issued \$10,795,000 in School Building Refunding Revenue Bonds at interest rates ranging from 2% to 3%.

REQUIRED SUPPLEMENTARY INFORMATION

MADISON COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 17,910,000	\$ 18,896,600	\$ 19,098,575
Motor vehicle	2,560,000	2,560,000	2,561,997
Utilities	5,000,000	5,270,000	5,280,032
Revenue in lieu of taxes	167,000	162,000	162,710
Earnings on investments	30,000	35,000	13,026
Other local revenues	117,000	169,200	182,650
Intergovernmental - State	52,338,354	53,801,658	53,785,854
Intergovernmental - Indirect Federal	100,000	250,000	307,012
Intergovernmental - Direct Federal		120,000	119,934
Total Revenues	<u>78,222,354</u>	<u>81,264,458</u>	<u>81,511,790</u>
Expenditures:			
Instruction	48,973,193	49,311,355	47,785,770
Support services:			
Student	4,902,795	4,979,756	4,966,830
Instruction staff	3,614,720	3,620,536	3,399,002
District administrative	2,123,345	2,143,575	939,911
School administrative	4,325,161	4,280,689	4,276,919
Business	1,442,973	1,485,059	1,326,281
Plant operation and maintenance	8,142,878	8,126,183	7,879,870
Student transportation	6,405,688	7,447,359	7,332,623
Community service activities	14,601	12,091	18,101
Other	4,040,000	5,675,000	
Facilities acquisition and construction		1,200,000	1,113,651
Total Expenditures	<u>83,985,354</u>	<u>88,281,603</u>	<u>79,038,958</u>
Excess (Deficit) of Revenues over Expenditures	(5,763,000)	(7,017,145)	2,472,832
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	3,000	3,000	5,756
Transfers in			4,317
Transfers out	(160,000)	(160,000)	(291,581)
Total Other Financing Sources (Uses)	<u>(157,000)</u>	<u>(157,000)</u>	<u>(281,508)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(5,920,000)	(7,174,145)	2,191,324
Fund Balance, July 1, 2013	<u>5,920,000</u>	<u>7,174,145</u>	<u>13,910,509</u>
Fund Balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,101,833</u>

MADISON COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Earnings on investments	\$ -	\$ -	\$ 671
Other local revenues		136,757	160,289
Intergovernmental - State	2,753,033	3,190,587	4,646,687
Intergovernmental - Indirect Federal	<u>5,742,420</u>	<u>5,506,906</u>	<u>7,109,529</u>
Total Revenues	8,495,453	8,834,250	11,917,176
Expenditures:			
Instruction	6,033,625	6,049,789	8,182,618
Support services:			
Student	359,982	428,303	414,893
Instruction staff	1,063,585	1,153,500	1,152,850
Business	20,000	20,000	20,000
Plant operation and maintenance		133,763	77,205
Student transportation	308,281	320,300	521,859
Community service activities	<u>869,980</u>	<u>888,595</u>	<u>825,042</u>
Total Expenditures	<u>8,655,453</u>	<u>8,994,250</u>	<u>11,194,467</u>
Excess (Deficit) of Revenues over Expenditures	(160,000)	(160,000)	722,709
Other Financing Sources (Uses):			
Transfers in	160,000	160,000	160,301
Transfers out			<u>(4,317)</u>
Total Other Financing Sources (Uses)	<u>160,000</u>	<u>160,000</u>	<u>155,984</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	878,693
Fund Balance, July 1, 2013	-	-	-
Fund Balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 878,693</u>

SUPPLEMENTARY INFORMATION

MADISON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	District Activity Fund	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:					
Cash, cash equivalents and investments	\$ 165,399	\$ 1,021,352	\$ 1,034,339	\$ -	\$ 2,221,090
Receivables:					
Taxes - current			22,518		22,518
Other receivables	683	285	441		1,409
Total Assets	<u>\$ 166,082</u>	<u>\$ 1,021,637</u>	<u>\$ 1,057,298</u>	<u>\$ -</u>	<u>\$ 2,245,017</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 4,671	\$ -	\$ -	\$ -	\$ 4,671
Total Liabilities	<u>4,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,671</u>
Fund Balances					
Restricted	161,411	1,021,637	1,057,298		2,240,346
Total Fund Balances	<u>161,411</u>	<u>1,021,637</u>	<u>1,057,298</u>	<u>-</u>	<u>2,240,346</u>
Total Liabilities and Fund Balances	<u>\$ 166,082</u>	<u>\$ 1,021,637</u>	<u>\$ 1,057,298</u>	<u>\$ -</u>	<u>\$ 2,245,017</u>

MADISON COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2014

	District Activity Fund	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Property taxes	\$ -	\$ -	\$ 7,278,957	\$ -	\$ 7,278,957
Other local revenue	166,082				166,082
Earnings on investments		1,880	3,442		5,322
Intergovernmental - State		1,019,757	2,540,600	477,123	4,037,480
Intergovernmental - Direct federal				336,071	336,071
Total Revenues	<u>166,082</u>	<u>1,021,637</u>	<u>9,822,999</u>	<u>813,194</u>	<u>11,823,912</u>
Expenditures					
Instruction	4,671				4,671
Facilities acquisition and construction			105,593		105,593
Debt service:					
Principal				5,510,000	5,510,000
Interest				3,963,302	3,963,302
Total Expenditures	<u>4,671</u>	<u>-</u>	<u>105,593</u>	<u>9,473,302</u>	<u>9,583,566</u>
Excess (Deficit) of Revenues over Expenditures	161,411	1,021,637	9,717,406	(8,660,108)	2,240,346
Other Financing Sources (Uses)					
Transfers in				8,660,108	8,660,108
Transfers out		(1,004,839)	(10,759,619)		(11,764,458)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,004,839)</u>	<u>(10,759,619)</u>	<u>8,660,108</u>	<u>(3,104,350)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	161,411	16,798	(1,042,213)	-	(864,004)
Fund balance, July 1, 2013	<u>-</u>	<u>1,004,839</u>	<u>2,099,511</u>	<u>-</u>	<u>3,104,350</u>
Fund balance, June 30, 2014	<u>\$ 161,411</u>	<u>\$ 1,021,637</u>	<u>\$ 1,057,298</u>	<u>\$ -</u>	<u>\$ 2,240,346</u>

MADISON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2014

	Daniel Boone Elementary	Glenn Marshall Elementary	Kingston Elementary	Kirkville Elementary	Kit Carson Elementary	Mayfield Elementary
Assets						
Cash and cash equivalents	\$ 9,862	\$ 30,337	\$ 17,526	\$ 11,415	\$ 21,143	\$ 6,998
Receivables	-	509	-	-	-	11
Total Assets	\$ 9,862	\$ 30,846	\$ 17,526	\$ 11,415	\$ 21,143	\$ 7,009
Liabilities						
Accounts payable	\$ 31	\$ 390	\$ 1,410	\$ -	\$ 570	\$ -
Due to student groups	9,831	30,456	16,116	11,415	20,573	7,009
Total Liabilities	\$ 9,862	\$ 30,846	\$ 17,526	\$ 11,415	\$ 21,143	\$ 7,009

	Shannon Johnson Elementary	Silver Creek Elementary	Waco Elementary	White Hall Elementary	B. Michael Caudill Middle School	Clark-Moores Middle School
Assets						
Cash and cash equivalents	\$ 15,260	\$ 30,994	\$ 7,825	\$ 57,042	\$ 16,043	\$ 76,766
Receivables	-	-	-	35	-	300
Total Assets	\$ 15,260	\$ 30,994	\$ 7,825	\$ 57,077	\$ 16,043	\$ 77,066
Liabilities						
Accounts payable	\$ 73	\$ 3,204	\$ -	\$ 8,269	\$ 1,784	\$ 323
Due to student groups	15,187	27,790	7,825	48,808	14,259	76,743
Total Liabilities	\$ 15,260	\$ 30,994	\$ 7,825	\$ 57,077	\$ 16,043	\$ 77,066

	Farristown Middle School	Foley Middle School	Madison Middle School	Madison Central High School	Madison Southern High School	Total Agency Fund
Assets						
Cash and cash equivalents	\$ 53,763	\$ 38,624	\$ 28,734	\$ 308,450	\$ 73,533	\$ 804,315
Receivables	-	-	-	4,050	1,788	6,693
Total Assets	\$ 53,763	\$ 38,624	\$ 28,734	\$ 312,500	\$ 75,321	\$ 811,008
Liabilities						
Accounts payable	\$ -	\$ 3,702	\$ -	\$ 1,913	\$ 207	\$ 21,876
Due to student groups	53,763	34,922	28,734	310,587	75,114	789,132
Total Liabilities	\$ 53,763	\$ 38,624	\$ 28,734	\$ 312,500	\$ 75,321	\$ 811,008

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

AGENCY FUNDS

YEAR ENDED JUNE 30, 2014

SCHOOL	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
Daniel Boone Elementary	\$ 17,133	\$ 41,348	\$ 48,619	\$ 9,862	\$ -	\$ 31	\$ 9,831
Glenn Marshall Elementary	26,945	98,222	94,830	30,337	509	390	30,456
Kingston Elementary	22,010	45,620	50,104	17,526	-	1,410	16,116
Kirksville Elementary	10,265	54,021	52,871	11,415	-	-	11,415
Kit Carson Elementary	16,050	80,263	75,170	21,143	-	570	20,573
Mayfield Elementary	9,845	15,638	18,485	6,998	11	-	7,009
Shannon Johnson Elementary	13,872	47,263	45,875	15,260	-	73	15,187
Silver Creek Elementary	21,359	31,669	22,034	30,994	-	3,204	27,790
Waco Elementary	14,480	42,128	48,783	7,825	-	-	7,825
White Hall Elementary	60,876	83,581	87,415	57,042	35	8,269	48,808
B. Michael Caudill Middle	20,006	240,660	244,623	16,043	-	1,784	14,259
Clark-Moores Middle	75,153	269,927	268,314	76,766	300	323	76,743
Farristown Middle	37,590	194,011	177,838	53,763	-	-	53,763
Foley Middle	51,962	112,744	126,082	38,624	-	3,702	34,922
Madison Middle	26,608	203,152	201,026	28,734	-	-	28,734
Madison Central High	359,702	974,956	1,026,208	308,450	4,050	1,913	310,587
Madison Southern High	81,038	399,073	406,578	73,533	1,788	207	75,114
	<u>\$ 864,894</u>	<u>\$2,934,276</u>	<u>\$ 2,994,855</u>	<u>\$ 804,315</u>	<u>\$ 6,693</u>	<u>\$ 21,876</u>	<u>\$ 789,132</u>

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

MADISON CENTRAL HIGH SCHOOL

YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
General Fund	\$ 158,738	\$ 38,903	\$ 91,267	\$ 106,374	\$ -	\$ -	\$ 106,374
Student Fees	777	43,630	44,407	-	-	-	-
Championship Rings	324	6,000	6,324	-	-	-	-
Parking Stickers	4,125	5,505	5,571	4,059	-	-	4,059
Guidance-Testing	6,669	43,436	42,534	7,571	-	-	7,571
Pass Program	271	-	-	271	-	-	271
Administrative Fund	20	-	20	-	-	-	-
Lost textbooks	-	1,157	1,157	-	-	-	-
Interest	21	295	295	21	-	-	21
Fac-Staff Retirement Fund	3,370	-	1,261	2,109	-	-	2,109
Fac-Staff Appreciation	-	-	-	-	-	-	-
Vending-Staff Drinks	-	1,493	1,493	-	100	-	100
Vending-Staff Snacks	-	584	584	-	100	-	100
Vending- Student Drinks	-	3,556	3,556	-	250	-	250
Vending- Student Snacks	-	1,572	1,572	-	100	-	100
Home Economics	207	841	916	132	-	-	132
Freshman Academy	2,353	-	395	1,958	-	-	1,958
Library Activities	1,067	2,901	3,752	216	-	-	216
Staffulty Unity Club	4,302	2,655	3,672	3,285	-	-	3,285
Renaissance Program	3,260	150	401	3,009	-	-	3,009
Archery	-	680	680	-	-	-	-
Misc. Athletics	4,137	30,679	25,781	9,035	-	635	8,400
Advertisement-Athletics	-	8,840	-	8,840	-	-	8,840
Uniform Replacement	16,891	10,000	11,076	15,815	-	-	15,815
Gate receipts	995	72,784	73,779	-	-	-	-
Baseball	-	11,403	11,403	-	-	-	-
Baseball Club	7,185	36,632	42,386	1,431	-	-	1,431
World Archery Acct	1,096	6,602	3,065	4,633	-	-	4,633
Bowling team	2,963	3,823	4,710	2,076	-	-	2,076
11th Region cheer	-	4,490	4,490	-	-	-	-
Boys basketball	-	12,204	12,204	-	-	-	-
Boys basketball club	11,481	11,026	16,599	5,908	-	-	5,908
44th District	-	429	429	-	-	-	-
Girls Basketball	-	10,301	10,301	-	-	-	-
G/Basketball Club	10,442	16,376	19,974	6,844	-	-	6,844
State tshirts	4,363	473	4,836	-	-	-	-
Cheer club	-	57,640	57,640	-	-	-	-
Cheerleader trip	1,938	48,901	50,839	-	-	-	-
Concession	-	26,860	26,860	-	-	-	-
Cross country, boys	-	1,636	1,636	-	-	-	-
Cross country, girls	-	1,641	1,641	-	-	-	-
B/G Cross Cty Club	405	15,238	11,330	4,313	-	22	4,291
Var Dance club	2,210	17,229	14,844	4,595	-	-	4,595
Dance-nationals	-	-	-	-	-	-	-
Bass anglers	-	8,332	3,421	4,911	-	-	4,911
Football	-	16,221	16,221	-	-	-	-
Football Club	8,151	64,183	58,082	14,252	3,500	130	17,622
Football Special Projects	-	6,100	1,889	4,211	-	-	4,211
Boys golf	-	1,055	1,055	-	-	-	-
Boys golf club	983	5,750	5,209	1,524	-	-	1,524
Girls Golf	-	618	618	-	-	-	-
Girls Golf Club	-	4,664	4,664	-	-	-	-
Homecoming	4,049	999	3,366	1,682	-	-	1,682
Boys Soccer	-	9,130	9,130	-	-	-	-
Girls Soccer	-	3,736	3,736	-	-	-	-
Girls Soccer Club	5,648	13,438	10,708	8,378	-	-	8,378
Softball travel	3,000	-	-	3,000	-	-	3,000
Step Team	5	1,400	1,380	25	-	-	25

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

MADISON CENTRAL HIGH SCHOOL

YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH		DISBURSEMENTS	CASH		RECEIVABLES	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS
	BALANCES	RECEIPTS		BALANCES	June 30, 2014			
	July 1, 2013			June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Softball	200	6,946	7,146	-	-	-	-	-
Softball Club	5,544	24,933	25,955	4,522	-	-	-	4,522
Swimming	-	3,390	3,390	-	-	-	-	-
Swimming Club	1,630	4,310	5,940	-	-	-	-	-
Tennis	-	1,374	1,374	-	-	-	-	-
Tennis Club	2,841	623	1,787	1,677	-	-	-	1,677
Tournaments	2,003	12,240	14,243	-	-	-	-	-
Wrestling	-	2,822	2,822	-	-	-	-	-
Boys Track	-	2,789	2,789	-	-	-	-	-
Boys Track Club	1,637	8,458	10,095	-	-	-	-	-
Girls Track	-	2,925	2,925	-	-	-	-	-
Girls Track Club	1,430	8,333	9,763	-	-	-	-	-
Volleyball	-	3,615	3,615	-	-	-	-	-
Volleyball Club	-	14,616	12,876	1,740	-	-	-	1,740
Archery Club	1,322	11,520	11,995	847	-	-	-	847
Academic Team	475	752	970	257	-	-	-	257
Art Club	83	50	72	61	-	-	-	61
Culinary Skills Class	79	-	-	79	-	-	-	79
Champions	-	-	-	-	-	-	-	-
Choral Music	3,641	138,684	141,983	342	-	-	-	342
Dabs	166	467	297	336	-	-	-	336
Book Club	513	4,734	4,349	898	-	-	-	898
Thrift Store/Green Club	840	-	394	446	-	-	-	446
Drama Club	2,249	335	1,550	1,034	-	-	-	1,034
FCA	628	-	628	-	-	-	-	-
FFA Club	14,931	13,865	14,427	14,369	-	80	-	14,289
FCCLA	1,405	111	-	1,516	-	-	-	1,516
French Club	139	474	498	115	-	-	-	115
Independent Study Society	452	-	452	-	-	-	-	-
Broadcast Journalism	757	452	104	1,105	-	-	-	1,105
Success Workstudy	498	196	140	554	-	-	-	554
JROTC	801	7,489	4,003	4,287	-	-	-	4,287
Kyle Nehila Scholarship	-	-	-	-	-	-	-	-
Junior Class	8,146	17,245	16,858	8,533	-	-	-	8,533
Latin Club	5	46,381	45,671	715	-	-	-	715
Project Santa	3,263	3,785	2,510	4,538	-	-	-	4,538
Michael Hobbs Scholarship	-	-	-	-	-	-	-	-
Musical Theatre	6,003	22,252	22,468	5,787	-	-	-	5,787
National Honor Society	82	1,950	1,829	203	-	-	-	203
First Priority	-	814	21	793	-	-	-	793
Pep Club	942	315	97	1,160	-	-	-	1,160
Science Club	451	-	451	-	-	-	-	-
Science Olympiad	673	9,122	8,045	1,750	-	242	-	1,508
Dungeons and Dragons	-	360	301	59	-	-	-	59
Sophomore Class	2,929	7,290	6,131	4,088	-	804	-	3,284
Tomahawk Club	89	-	-	89	-	-	-	89
Soul	327	5,787	5,562	552	-	-	-	552
Spanish Club	1,470	1,940	1,132	2,278	-	-	-	2,278
Spanish Honor Society	249	62	311	-	-	-	-	-
Tammy Hooper Scholarship	1,983	806	2,789	-	-	-	-	-
Student Pride Tribe	-	-	-	-	-	-	-	-
Terry L Wells Interest	4,002	14	-	4,016	-	-	-	4,016
Together As One	291	1,430	225	1,496	-	-	-	1,496
Yearbook	9,320	4,410	10,149	3,581	-	-	-	3,581
Senior Class	841	2,719	3,156	404	-	-	-	404
Technology Student Assoc.	36	-	-	36	-	-	-	36
Mock Trial	-	6,973	6,080	893	-	-	-	893
Express Yourself Clearly	174	1,967	2,141	-	-	-	-	-
Future Educators of America	-	-	-	-	-	-	-	-
Anatomy Club	-	-	-	-	-	-	-	-
Tribal Threads	365	5,176	5,187	354	-	-	-	354

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

MADISON CENTRAL HIGH SCHOOL

YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
CIA	1,095	496	482	1,109	-	-	1,109
Key Club	500	1,307	1,126	681	-	-	681
STLP	99	129	66	162	-	-	162
Ben Wingate Fund	-	-	-	-	-	-	-
AAMMP	445	51	136	360	-	-	360
Monday Morning Men	24	335	278	81	-	-	81
UNICEF	-	-	-	-	-	-	-
GSA	188	1,194	1,336	46	-	-	46
Daniel Rector Scholarship	-	-	-	-	-	-	-
General-Dist Activity	-	23	-	23	-	-	23
Library-Dist Activity	-	-	-	-	-	-	-
Sub Total	359,702	1,115,027	1,166,279	308,450	4,050	1,913	310,587
Interfund Transfers	-	140,071	140,071	-	-	-	-
TOTAL	\$ 359,702	\$ 974,956	\$ 1,026,208	\$ 308,450	\$ 4,050	\$ 1,913	\$ 310,587

MADISON COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
MADISON SOUTHERN HIGH SCHOOL
YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH	RECEIPTS	DISBURSE- MENTS	CASH	RECEIVABLES	ACCOUNTS PAYABLE	DUE TO
	BALANCES July 1, 2013			BALANCES June 30, 2014			June 30, 2014
Fees	\$ 1,604	\$ 40,498	\$ 42,102	\$ -	\$ -	\$ -	\$ -
Interest	31	(9)	-	22	-	-	22
Parking	-	4,700	4,700	-	-	-	-
Photography	-	944	944	-	-	-	-
General	10,596	35,859	38,044	8,411	-	-	8,411
Vending Teachers Workroom	611	1,233	839	1,005	-	-	1,005
Vending	129	422	551	-	-	-	-
Drivers Ed	670	-	670	-	-	-	-
Textbooks	-	1,481	1,481	-	-	-	-
Hospitality	539	-	-	539	-	-	539
Charities	-	457	445	12	-	-	12
Project Graduation	-	2,275	2,275	-	-	-	-
Eagle Nest	228	1,964	1,322	870	-	167	703
MS Historical Club	353	-	-	353	-	-	353
Academic Team	34	-	-	34	-	-	34
Business	1,560	9,179	10,537	202	-	-	202
Beta Club	323	3,602	1,973	1,952	-	-	1,952
AAHC	134	30	96	68	-	-	68
Envirothon Club	25	982	968	39	-	-	39
Drama Club	522	13,912	12,955	1,479	-	-	1,479
FCA	189	1,049	1,149	89	-	-	89
FFA Grant	42	-	42	-	-	-	-
FFA	3,029	21,655	23,364	1,320	-	-	1,320
FCCLA	78	8,748	3,441	5,385	-	-	5,385
Freshman Class	-	-	-	-	-	-	-
Senior Class	701	2,770	2,015	1,456	928	-	2,384
Junior Class	-	-	-	-	-	-	-
Sophomore Class	-	-	-	-	-	-	-
Newspaper	3,694	1,325	564	4,455	-	-	4,455
KEY Club	13	239	156	96	-	-	96
Pep Club	59	-	-	59	-	-	59
Youth Service Center	297	3	-	300	-	-	300
Science Club	183	-	-	183	-	-	183
Spanish Club	112	3,634	3,304	442	-	-	442
Science Olympiad	166	387	332	221	-	-	221
TSA	1,689	2,720	2,633	1,776	-	-	1,776
Homecoming	294	799	819	274	-	-	274
Step Team	-	-	-	-	-	-	-
Yearbook	6,161	5,777	2,789	9,149	-	-	9,149
Tri-M Honor Music Society	-	1,970	1,292	678	-	-	678
Student Council	394	433	441	386	-	-	386
Aquaculture	-	50	19	31	-	-	31
AFJROTC	3,963	1,213	3,318	1,858	-	-	1,858
Prom	3,686	17,248	13,388	7,546	-	-	7,546
Travel Club	-	-	-	-	-	-	-
Athletic Department	1,524	116,013	115,199	2,338	-	40	2,298
Letter Jackets	-	8,211	8,211	-	-	-	-
Athletic Buses	-	46,895	46,895	-	-	-	-
Athletic Uniforms	-	363	363	-	-	-	-
Golf Scramble	-	-	-	-	-	-	-
Archery	256	24,145	24,103	298	-	-	298
Region Tournament	-	1,395	1,395	-	-	-	-
District Tournaments	-	11,030	11,030	-	-	-	-
Baseball, Boys	1,006	-	1,005	1	-	-	1
Softball, Girls	30	100	-	130	-	-	130
Basketball, Boys	-	-	-	-	-	-	-
Basketball, Girls	232	181	-	413	-	-	413
Bass Team	-	389	322	67	-	-	67
Bowling	38	36	-	74	-	-	74
Football	-	-	-	-	-	-	-
Soccer, Boys	-	-	-	-	-	-	-
Soccer, Girls	-	-	-	-	-	-	-
Swim Team	-	-	-	-	-	-	-
Track, Boys	383	130	-	513	-	-	513
Track, Girls	-	-	-	-	-	-	-
Cross Country	-	-	-	-	-	-	-
Tennis	50	833	693	190	-	-	190
Cheerleaders	83	2,095	579	1,599	-	-	1,599
Southern Belles	-	-	-	-	-	-	-

MADISON SOUTHERN HIGH SCHOOL

YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
Golf, Boys	1,481	401	538	1,344	-	-	1,344
Golf, Girls	1,425	3,909	4,643	691	-	-	691
Volleyball	-	-	-	-	-	-	-
Art Club	231	349	110	470	-	-	470
Band	175	61	185	51	-	-	51
Techno Club	803	263	388	678	-	-	678
FMD Program	762	1,454	1,234	982	-	-	982
Greenhouse	6,386	3,517	3,840	6,063	-	-	6,063
Culinary Catering	179	902	1,081	-	-	-	-
Library	2,105	2,663	4,768	-	-	-	-
Social Studies Dept	72	-	72	-	-	-	-
Vo. Ag. Dept	74	252	316	10	-	-	10
Vocal Music	5,605	27,879	27,252	6,232	-	-	6,232
AFJROTC Dept	931	262	-	1,193	-	-	1,193
Reading	61	14	75	-	-	-	-
EDF	361	-	361	-	-	-	-
Eagle Graphics	11,510	5,858	17,368	-	-	-	-
Mock Trial Team	81	504	585	-	-	-	-
English	-	1,637	1,637	-	-	-	-
Scholarship Fund	970	-	970	-	-	-	-
Auditorium Rent	1,885	500	2,385	-	-	-	-
AFJROTC Logistical Support	230	1,485	2,209	(494)	860	-	366
Void	-	-	-	-	-	-	-
General - Dist Activity	-	-	-	-	-	-	-
Library- Dist Activity	-	-	-	-	-	-	-
Athletic- Dist Activity	-	-	-	-	-	-	-
Field Trip- Dist Activity	-	-	-	-	-	-	-
Sub Total	81,038	451,275	458,780	73,533	1,788	207	75,114
Interfund Transfers	-	52,202	52,202	-	-	-	-
TOTAL	\$ 81,038	\$ 399,073	\$ 406,578	\$ 73,533	\$ 1,788	\$ 207	\$ 75,114

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED June 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-13	\$ 440,537
		7750002-14	1,832,660
School Breakfast Program	10.553	7760005-13	144,123
		7760005-14	597,216
Summer Food Service Program for Children	10.559	7690024-13	1,778
		7740023-13	17,004
		7740023-14	5,891
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	324,357
TOTAL CHILD NUTRITION CLUSTER			3,363,566
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	7720012-13	2,108
		7720012-14	7,295
			9,403
TOTAL U.S. DEPT. OF AGRICULTURE			3,372,969
<u>U.S. DEPARTMENT OF DEFENSE</u>			
National Guard Civilian Youth Opportunities	12.000	GF	119,934
TOTAL U.S. DEPT. OF DEFENSE			119,934
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Passed Through Kentucky Appalachian Regional Commission:			
Appalachian Research, Technical Assistance and Demonstration Projects	23.011	6883	1,044
		6884	2,084
TOTAL APPALACHIAN REGIONAL COMMISSION			3,128
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3373	83,854
		3374	1,929,084
		3363V	152,348
			2,165,286
Special Education - Preschool Grants	84.173	3433	854
		3434	97,464
			98,318
TOTAL SPECIAL EDUCATION CLUSTER			2,263,604
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3102	61,601
		3103	576,273
		3104	2,088,762
		3202	6,516
		3204E	243,537
			2,976,689
Migrant Education, State Grant Program	84.011	3113	35,902
		3113S	4,261
		3114	91,735
			131,898

The accompanying notes are an integral part of this schedule.

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED June 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Title I State Agency Program for Neglected and Delinquent Children	84.013	3134 3134T	10,480 <u>1,800</u> 12,280
Vocational Education - Basic Grants to States	84.048	3483 3484	4,439 <u>70,221</u> 74,660
English Language Acquisition State Grants	84.365	3452 3453 3453I 3454	5,797 13,000 237 <u>1,035</u> 20,069
Improving Teacher Quality - State Grants	84.367	4013 4014	780 <u>437,117</u> 437,897
Race to the Top	84.413A	4521	<u>19,638</u>
Passed Through Berea College: Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3793G 3794G	(794) <u>869,476</u> 868,682
Passed Through University of Kentucky: Investing in Innovation	84.411	4913 4914	8,757 <u>4,139</u> 12,896
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>6,818,313</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State Department of Education: ARRA - Head Start, Recovery Act	93.708	6551C 6553C	10,206 <u>38,629</u> 48,835
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread the Spread of HIV and Other Important Health Problems	93.938	4181	<u>100</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>48,935</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Madison County: Chemical Stockpile Emergency Preparedness Program	97.040	0254N 025BM 025DT	60,000 145,816 <u>33,339</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>239,155</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,602,434</u>

The accompanying notes are an integral part of this schedule.

MADISON COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Madison County School District under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Madison County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Madison County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MADISON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? 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 (unmodified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
DEPARTMENT OF AGRICULTURE	
10.555	National School Lunch Program
10.553	School Breakfast Program
10.559	Summer Food Service Program for Children
DEPARTMENT OF EDUCATION	
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish
Between type A and type B programs: \$ 318,073

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

MATERIAL WEAKNESSES**REFERENCE NUMBER 2014-001 ADJUSTMENTS**

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material adjustments to the financial statements.

Cause: The District did not identify items to be corrected.

Effect: The design of the internal controls identifying adjustments did not prevent material adjustments.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Management Response: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items by October 31, 2014.

Section III – Federal Award Findings and Questioned Costs

No matters

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2014

U.S. DEPARTMENT OF AGRICULTURE

FINDING 2013-1 – Child Nutrition Cluster

Condition: This finding was a material weakness stating that eligibility was not correctly determined for some participants.

Recommendation: The auditor recommended that procedures be implemented to ensure the properly eligibility determination is made.. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: The recommendation was adopted in November 2013. No similar findings were noted in the 2014 audit.

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

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Madison County School District
Richmond, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madison County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Madison County School District's basic financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Madison County School District's internal control over financial reporting (internal control) to determine the audit 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs at item 2014-001 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Madison County School District in a separate letter dated September 29, 2014.

Madison County School District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.



Certified Public Accountants
Elizabethtown, Kentucky
September 29, 2014

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

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Madison County School District
Richmond, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Madison County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Madison County School District's major federal programs for the year ended June 30, 2014. Madison County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Madison County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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 Madison County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Madison County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Madison County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Madison County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 Madison County School District's internal control over compliance.

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

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

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



Certified Public Accountants
Elizabethtown, Kentucky
September 29, 2014