

**MONTGOMERY COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2014

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District (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 table of contents.

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

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

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

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White & Associates, PSC*

Richmond, Kentucky

November 10, 2014

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
YEAR ENDED June 30, 2014

As management of the School District of Montgomery County, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ The beginning general fund balance for the district was \$8,955,988.
- ❖ General Fund decreased \$1,116,908 leaving an end of year fund balance to be \$7,839,080.
- ❖ The District’s outstanding debt, excluding KISTA debt payments, is \$40,736,000.
- ❖ The General Fund received \$34,498,662 in revenue, which primarily consisted of SEEK program, property, utility and motor vehicle taxes. This amount includes \$910,417 in approved transfers in from capital outlay, building, and construction funds. There was \$35,615,570 in general fund expenditures. This includes \$71,314 of transfers to match KETS technology and community education. Also a transfer of \$637,140 for Phase I of McNabb renovation that will be transferred back to general fund in FY15 due to bond sale.
- ❖ The majority of revenue was derived from state funding 68%, federal funding 10% and local and other funding making up 22% of the total revenue.
- ❖ The greater amount of revenue is spent on instruction expenditures. This makes up 60% of the general fund expenditures. The instruction function includes the site based decision making (SBDM) expenditures for staff and supplies. The student support services make up 6% which includes attendance services, guidance counseling, health services, psychological testing, speech, and hearing services. The instructional staff support makes up 3% which includes staff support personnel and librarians. The district administration support makes up 3% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent’s office expenses. The school administration support makes 5% which includes principals, high school/middle school guidance and secretary’s expenses. The business support services makes up 4% which includes the finance office and other central office expenditures. The plant operation and management, construction makes up 11%. The student transportation makes up 7%. Debt Service makes up 1%.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**Government-wide financial statements.**

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

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
YEAR ENDED June 30, 2014

The statement of net position presents information on all of the District’s assets 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. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

**Fund financial statements.**

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

**Notes to the financial statements.**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$ 33,774,676 for Governmental Activities and \$ 2,137,476 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 are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED June 30, 2014**

Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2013-2014
	2013	2014	2013	2014	2013	2014	
<b>Revenues:</b>							
Charges for services	\$ 0.35	\$ 0.30	\$ 1.25	\$ 1.24	\$ 1.60	\$ 1.54	-4%
Operating grants and contributions	4.94	5.10	1.83	2.22	6.77	7.32	8%
Capital grants and contributions	2.13	2.94	-	-	2.13	2.94	38%
General revenues	34.93	35.50	(0.13)	(0.08)	34.81	35.42	2%
<b>Total revenue</b>	<b>42.35</b>	<b>43.84</b>	<b>2.96</b>	<b>3.39</b>	<b>45.31</b>	<b>47.22</b>	<b>4%</b>
<b>Expenses:</b>							
Instruction	\$ 24.19	\$ 24.06			\$ 24.19	\$ 24.06	-1%
Student	2.15	2.74			2.15	2.74	27%
Instructional staff	2.17	1.69			2.17	1.69	-22%
District administration	1.51	1.21			1.51	1.21	-20%
School administration	1.65	1.90			1.65	1.90	15%
Business	1.45	1.31			1.45	1.31	-10%
Plant operation & maintenance	3.59	3.55			3.59	3.55	-1%
Student transportation	2.43	2.36			2.43	2.36	-3%
Community services operations	0.34	0.33			0.34	0.33	-3%
Loss on Retirement of Net Assets	0.02	0.22			0.02	0.22	1054%
Depreciation/Amortization	2.66	2.99	0.14	0.14	2.80	3.13	12%
Interest on long-term debt	1.22	1.88			1.22	1.88	54%
Food Service Operations	-	-	2.86	2.70	2.86	2.70	-6%
Extraordinary item	0.73	-			0.73	-	-100%
Daycare Operations	-	-	0.44	0.51	0.44	0.51	16%
<b>Total Expenses</b>	<b>\$ 44.11</b>	<b>\$ 44.24</b>	<b>\$ 3.44</b>	<b>\$ 3.35</b>	<b>\$ 47.55</b>	<b>\$ 47.59</b>	<b>1%</b>
<b>Change in net position</b>	<b>\$ (1.76)</b>	<b>\$ (.40)</b>	<b>\$ (0.48)</b>	<b>\$ 0.04</b>	<b>\$ (2.24)</b>	<b>\$ (.36)</b>	<b>84%</b>

Debt

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

	Government Activities	
	2013	2014
General Obligation Bonds	\$ 42.7	\$ 40.74
Capital Lease Obligations	\$ 2.0	\$ 2.24
<b>Total Obligations</b>	<b>\$ 44.70</b>	<b>\$ 42.98</b>

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
 YEAR ENDED June 30, 2014

Net Position for the period ending June 30, 2013 as compared to June 30, 2014

		2013	2014
Current Assets		\$11,070,089	\$10,739,330
Noncurrent Assets		\$70,355,712	\$79,552,260
	<b>Total Assets</b>	<b>\$81,425,801</b>	<b>\$79,552,260</b>
Loss for difference in reacquisition & carrying value of refunding debt		\$421,707	\$373,345
Current Liabilities		\$2,868,283	\$3,048,456
Noncurrent Liabilities		\$43,447,418	\$41,574,036
	<b>Total Liabilities</b>	<b>\$46,315,701</b>	<b>\$44,622,492</b>
Net Position			
Investment in capital assets		\$27,032,407	\$26,212,213
Restricted for capital projects		\$1,446,161	\$2,742,341
Unrestricted		\$8,747,725	\$6,348,559,
	<b>Total Net Position</b>	<b>\$37,226,292</b>	<b>\$35,303,114</b>

**Capital Assets**

At the end of fiscal 2014, the district had \$ 26.8 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of .8 million.

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

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land	3.63	3.63			\$3.63	\$3.63
Land Improvements	2.11	1.92			\$2.11	\$1.92
Buildings & Improvements	60.10	58.27	0.97	0.92	\$61.07	\$59.19
Technology Equipment	0.83	0.51	0.00	0.00	\$0.83	\$0.51
Vehicles	1.94	2.36	0.01	0.01	\$1.96	\$2.37
Infrastructure	0.01	0.01			\$0.01	\$0.01
General Equipment	0.21	0.20	0.52	0.44	\$0.73	\$0.64
Construction in Progress	2.21	0.61			\$2.21	\$0.61
<b>Totals</b>	<b>\$71.05</b>	<b>\$67.50</b>	<b>\$1.51</b>	<b>\$1.37</b>	<b>\$72.56</b>	<b>\$68.87</b>

**MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
 YEAR ENDED June 30, 2014

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

**Revenue & Expenditures by Fund**

<b>Revenue</b>	General Fund	Special Revenue	Capital Outlay/FSPK	Construction	Debt	Food Serv/ChildCare
Local/Other	\$ 7,380,966	\$ 28,826	\$ 2,187,267	\$ 595	\$ 54,858	\$ 1,246,997
State	\$ 26,057,735	\$ 1,420,410	\$ 2,055,744		\$ 152,544	\$ 250,832
Federal	\$ 149,544	\$ 3,534,528			\$ 736,112	\$ 1,973,610
Transfers	\$ 910,417	\$ 71,314		\$ 607,140	\$ 3,422,051	
<b>Total</b>	<b>\$ 34,498,662</b>	<b>\$ 5,055,078</b>	<b>\$ 4,243,011</b>	<b>\$ 607,735</b>	<b>\$ 4,365,565</b>	<b>\$ 3,471,439</b>
<b>Expenditure</b>	General Fund	Special Revenue	Capital Outlay/FSPK	Construction	Debt	Food Serv/ChildCare
Instruction	\$ 20,773,182	\$ 3,269,251				
Student Support	\$ 2,020,262	\$ 719,304				
Instruct. Staff	\$ 978,005	\$ 715,133				
District Admin	\$ 1,212,197	\$ 1,726				
School Admin	\$ 1,899,125					
Business Supp.	\$ 1,274,907	\$ 33,656				
Plant Op/Maint	\$ 3,743,484	\$ 17,590				
Transportation	\$ 2,546,745					
Food Service						\$ 3,350,603
Community Srv	\$ 34,105	\$ 292,641				
Archit./Engin.						
Building Acquis.				\$ 750,839		
Escrow Agent						
Deprecation						
Debt Service	\$ 425,107				\$ 3,798,188	
Transfers	\$ 708,452	\$ 5,776	\$ 4,236,009			\$ 80,683
Other						
<b>Total</b>	<b>\$ 35,615,571</b>	<b>\$ 5,055,077</b>	<b>\$ 4,236,009</b>	<b>\$ 750,839</b>	<b>\$ 3,798,188</b>	<b>\$ 3,431,286</b>

**FUTURE BUDGETARY IMPLICATIONS**

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

MONTGOMERY COUNTY SCHOOL DISTRICT – MT. STERLING, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
YEAR ENDED June 30, 2014

upcoming 14-15 school year the state has mandated a 1% raise and 2% raise in the 15-16 school year.

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

Montgomery County School District  
**Statement of Net Position**  
June 30, 2014

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 884,300	\$ 652,631	\$ 1,536,931
Investments	8,020,522		8,020,522
Receivables (net)	1,066,393	57,759	1,124,153
Inventories		57,724	57,724
Capital assets:			
Land, improvements, and construction in progress	4,384,642		4,384,642
Other capital assets, net of depreciation	63,057,869	1,370,419	64,428,288
Total capital assets	67,442,511	1,370,419	68,812,930
Total assets	77,413,726	2,138,534	79,552,260
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	373,345		373,345
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	102,156	1,058	103,214
Accrued interest payable	279,274		279,274
Unearned revenue	292,964		292,964
Long-term liabilities:			
Due within 1 year:			
Bond obligations	2,035,000		2,035,000
Capital lease obligations	338,004		338,004
Total due within 1 year	2,373,004	-	2,373,004
Due in more than 1 year:			
Bond obligations	38,701,000		38,701,000
Capital lease obligations	1,900,058		1,900,058
KSBIT payable	606,224		606,224
Sick leave	366,754		366,754
Total due in more than 1 year	41,574,036	-	41,574,036
Total liabilities	44,621,433	1,058	44,622,491
<b>NET POSITION</b>			
Net Investment in capital assets	24,841,794	1,370,419	26,212,213
Restricted for:			
Nonexpendable restricted debt service	1,708,914		1,708,914
Expendable restricted capital projects	28,103		28,103
Expendable restricted site based carryforwards	54,891		54,891
Expendable restricted day care operations		102,770	102,770
Expendable restricted sick leave	183,377		183,377
Expendable restricted food service		664,287	664,287
Unrestricted	6,348,559		6,348,559
Total net position	\$ 33,165,638	\$ 2,137,476	\$ 35,303,114

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Activities**  
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 24,060,681	\$ 280,704	\$ 3,304,978	\$ -	\$ (20,474,999)		\$ (20,474,999)
Support Services							
Student	2,739,566	14,937	727,165		(1,997,465)		(1,997,465)
Instructional Staff	1,693,138		722,949		(970,190)		(970,190)
District Administration	1,213,923		1,744		(1,212,178)		(1,212,178)
School Administration	1,899,125				(1,899,125)		(1,899,125)
Business	1,308,563		34,024		(1,274,539)		(1,274,539)
Plant Operation & Maintenance	3,547,625		17,782	2,055,744	(1,474,098)		(1,474,098)
Student Transportation	2,360,119				(2,360,119)		(2,360,119)
Community Services Operations	326,745		295,839		(30,907)		(30,907)
Loss on retirement of assets	224,177				(224,177)		(224,177)
Amortization	48,362				(48,362)		(48,362)
Depreciation	2,938,588				(2,938,588)		(2,938,588)
Interest on general long-term debt	1,875,711			888,656	(987,055)		(987,055)
Total governmental activities	<u>44,236,323</u>	<u>295,641</u>	<u>5,104,482</u>	<u>2,944,400</u>	<u>(35,891,801)</u>		<u>(35,891,801)</u>
Business-type activities:							
Food service operations	2,697,454	893,075	2,120,023			\$ 315,644	315,644
Depreciation	139,970					(139,970)	(139,970)
Community operation	513,179	351,517	104,419			(57,242)	(57,242)
Total business-type activities	<u>3,350,603</u>	<u>1,244,592</u>	<u>2,224,442</u>	<u>-</u>	<u>-</u>	<u>118,432</u>	<u>118,432</u>
Total primary government	\$ <u>47,586,926</u>	\$ <u>1,540,233</u>	\$ <u>7,328,924</u>	\$ <u>2,944,400</u>	<u>(35,891,801)</u>	<u>118,432</u>	<u>(35,773,369)</u>
General revenues:							
Taxes:							
Property taxes					6,414,334		6,414,334
Motor vehicle taxes					639,621		639,621
Utility taxes					1,975,108		1,975,108
Revenue in lieu of taxes					120,437		120,437
State and formula grants					26,057,735		26,057,735
Unrestricted investment earnings					120,971	2,405	123,376
Sale of equipment					86,401		86,401
Transfers					80,683	(80,683)	-
Total general revenues and transfers					<u>35,495,289</u>	<u>(78,278)</u>	<u>35,417,011</u>
Change in net position					(396,511)	40,154	(356,358)
Net position - beginning					33,434,484	2,097,322	35,531,807
Prior period adjustment					127,665		127,665
Restated net position - beginning					<u>33,562,149</u>	<u>2,097,322</u>	<u>35,659,472</u>
Net position - ending					\$ <u>33,165,638</u>	\$ <u>2,137,476</u>	\$ <u>35,303,114</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2014

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$	\$	\$	\$	\$	\$
Investments	8,020,522	-	79,544	1,708,914	28,102	1,816,560
Receivables, net						8,020,522
Taxes-current	213,224	853,170				1,066,393
Taxes-delinquent						-
Accounts						-
Intergovernmental-federal						-
Prepaid						-
Total assets	8,233,746	853,170	79,544	1,708,914	28,102	10,903,475
<b>LIABILITIES</b>						
Accounts payable	22,613		79,543			102,156
Cash shortage	372,054	560,205				932,260
Other current liabilities						-
Unearned revenue		292,964				292,964
Total liabilities	394,667	853,170	79,543	-	-	1,327,380
<b>FUND BALANCE</b>						
Restricted			2	1,708,914	28,102	1,737,017
Committed	238,268					238,268
Unassigned	7,600,810					7,600,810
Total fund balance	\$ 7,839,078	\$ -	\$ 2	\$ 1,708,914	\$ 28,102	\$ 9,576,095

See the accompanying notes to the financial statements.

Montgomery County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
 June 30, 2014

<b>Total fund balance per fund financial statements</b>	\$	9,576,095
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		67,442,511
<p>Capitalized the bond defeasance costs of the sale/refunding bonds and amortized over the life of the bonds.</p>		373,345
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(279,274)
Bonds payable		(40,736,000)
Capital lease payable		(2,238,062)
KSBIT payable		(606,224)
Noncurrent sick leave payable		(366,754)
		(47,264,316)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>33,165,638</b>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2014

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 4,095,399	\$ -	\$ -	\$ -	\$ 2,187,267	\$ 6,282,666
Delinquent	131,668					131,668
Motor vehicle	639,621					639,621
Utilities	1,975,108					1,975,108
Revenue in lieu of taxes	120,437					120,437
Earnings on investments	65,244	274	595	54,858		120,971
Tuition	73,735					73,735
Student Activities		14,937				14,937
Other local revenue	193,354	13,615				206,969
Intergovernmental - state	26,057,735	1,420,410		152,544	2,055,744	29,686,433
Intergovernmental - federal	149,544	3,534,528		736,112		4,420,184
Total revenues	<u>33,501,845</u>	<u>4,983,763</u>	<u>595</u>	<u>943,514</u>	<u>4,243,011</u>	<u>43,672,728</u>
<b>EXPENDITURES</b>						
Instruction	20,773,182	3,269,251				24,042,433
Support Services						
Student	2,020,262	719,304				2,739,566
Instructional Staff	978,005	715,133				1,693,138
District Administration	1,212,197	1,726				1,213,923
School Administration	1,899,125					1,899,125
Business	1,274,907	33,656				1,308,563
Plant Operation & Maintenance	3,743,484	17,590				3,761,074
Student Transportation	2,546,745					2,546,745
Community Services Operations	34,105	292,641				326,745
Debt Service	425,107			3,798,188		4,223,295
Building acquisition & construction			750,839			750,839
Total expenditures	<u>34,907,119</u>	<u>5,049,301</u>	<u>750,839</u>	<u>3,798,188</u>	<u>-</u>	<u>44,505,447</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,405,274)	(65,538)	(750,244)	(2,854,674)	4,243,011	(832,719)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment, buildings and land & improvements	86,401					86,401
Operating transfers in	910,417	71,314	607,140	3,442,051		5,030,922
Operating transfers (out)	(708,454)	(5,776)			(4,236,009)	(4,950,239)
Total other financing sources and (uses)	<u>288,364</u>	<u>65,538</u>	<u>607,140</u>	<u>3,442,051</u>	<u>(4,236,009)</u>	<u>167,084</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,116,910)	-	(143,104)	587,377	7,002	(665,635)
<b>FUND BALANCE-BEGINNING</b>	<u>8,955,988</u>	<u>-</u>	<u>143,106</u>	<u>1,121,536</u>	<u>21,100</u>	<u>10,241,730</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 7,839,078</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 1,708,914</u>	<u>\$ 28,102</u>	<u>\$ 9,576,095</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities**  
 Year ended June 30, 2014

<b>Net change in total fund balances per fund financial statements</b>	\$	(665,635)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(1,402,812)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the costs associated with the sale of bonds amortized over the life of the bonds.</p>		(48,362)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		2,334,469
<p>Capital lease proceeds are recorded as an increase in debt in the statement of net position but are not recorded on the fund financial statements</p>		(609,038)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		13,114
<p>Noncurrent sick leave payable</p>		(18,248)
		(396,511)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(396,511)</b>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 4,252,453	\$ 4,252,453	\$ 4,095,399	\$ (157,054)
Delinquent	190,000	190,000	131,668	(58,332)
Motor vehicle	625,000	625,000	639,621	14,621
Utilities	2,160,500	2,160,500	1,975,108	(185,392)
Revenue in lieu of taxes	182,519	182,519	120,437	(62,082)
Earnings on investments	58,000	58,000	65,244	7,244
Tuition	30,800	30,800	73,735	42,935
Other local revenue	102,000	102,000	193,354	91,354
Intergovernmental - state	24,948,134	25,637,156	26,057,735	420,579
Intergovernmental - federal	75,000	75,000	149,544	74,544
Total revenues	<u>32,624,406</u>	<u>33,313,428</u>	<u>33,501,845</u>	<u>188,417</u>
<b>EXPENDITURES</b>				
Instruction	22,241,370	22,102,389	20,773,182	1,329,207
Support Services				
Student	1,807,976	1,815,259	2,020,262	(205,003)
Instructional Staff	1,303,572	1,233,640	978,005	255,635
District Administration	1,560,602	1,560,602	1,212,197	348,405
School Administration	1,605,689	1,605,689	1,899,125	(293,436)
Business	1,285,795	1,285,795	1,274,907	10,889
Plant Operation & Maintenance	3,694,951	3,694,951	3,743,484	(48,534)
Student Transportation	2,453,817	2,599,990	2,546,745	53,245
Debt Service	426,109	426,109	425,107	1,002
Community Services Operations	83,588	83,588	34,105	49,483
Total expenditures	<u>36,463,469</u>	<u>36,408,011</u>	<u>34,907,119</u>	<u>1,500,893</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(3,839,063)	(3,094,584)	(1,405,274)	1,689,310
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment	4,000	4,000	86,401	82,401
Operating transfers in	494,512	494,512	910,417	415,905
Operating transfers out	(66,464)	(66,464)	(708,454)	(641,990)
Total other financing sources and (uses)	<u>432,048</u>	<u>432,048</u>	<u>288,364</u>	<u>(143,684)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,407,015)	(2,662,536)	(1,116,910)	1,545,626
<b>FUND BALANCE-BEGINNING</b>	<u>8,823,276</u>	<u>8,823,276</u>	<u>8,955,988</u>	<u>132,712</u>
<b>FUND BALANACE-ENDING</b>	<u>\$ 5,416,261</u>	<u>\$ 6,160,740</u>	<u>\$ 7,839,078</u>	<u>\$ 1,678,338</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Earnings on investments	\$ -	\$ 274	\$ 274	\$ -
Student activities	-	29,358	14,937	(14,422)
Other local revenue	15,810	23,041	13,615	(9,427)
Intergovernmental - state	1,390,883	1,534,755	1,420,410	(114,346)
Intergovernmental - federal	3,361,068	3,224,149	3,534,528	310,379
Total revenues	<u>4,767,761</u>	<u>4,811,578</u>	<u>4,983,763</u>	<u>172,185</u>
<b>EXPENDITURES</b>				
Instruction	3,255,292	3,230,671	3,269,251	(38,580)
Support Services				
Student	344,641	350,149	719,304	(369,155)
Instructional Staff	897,154	881,380	715,133	166,247
District Administration	1,739	1,739	1,726	13
Business	32,110	37,885	33,656	4,229
Plant Operation & Maintenance		72,972	17,590	55,382
Student Transportation	2,000	2,000		2,000
Community Services Operations	295,478	300,284	292,641	7,643
Total expenditures	<u>4,828,413</u>	<u>4,877,080</u>	<u>5,049,301</u>	<u>(172,221)</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(60,652)	(65,502)	(65,538)	(36)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	66,464	71,314	71,314	-
Operating transfers out	(5,812)	(5,812)	(5,776)	36
Total other financing sources and (uses)	<u>60,652</u>	<u>65,502</u>	<u>65,538</u>	<u>36</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	0	0
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 0</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2014

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Enterprise Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 549,180	\$ 103,452	\$ 652,631
Inventories	57,724		57,724
Accounts receivable, net	57,383	376	57,759
Capital assets:			
Other capital assets, net of depreciation	1,370,219	200	1,370,419
Total assets	2,034,506	104,028	2,138,534
<b>LIABILITIES</b>			
Accounts payable		1,058	1,058
Total liabilities	-	1,058	1,058
<b>NET POSITION</b>			
Net Investment in capital assets	1,370,219	200	1,370,419
Restricted for:			
Expendable restricted for child care		102,770	102,770
Expendable restricted for food service	664,287		664,287
Total net position	\$ 2,034,506	\$ 102,970	\$ 2,137,476

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2014

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Enterprise Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 893,075	\$ -	\$ 893,075
Community services		351,517	351,517
Total operating revenues	<u>893,075</u>	<u>351,517</u>	<u>1,244,592</u>
<b>OPERATING EXPENSES</b>			
Food service operations			
Salaries and benefits	1,090,848		1,090,848
Operational	1,606,606		1,606,606
Day care operations			
Salaries and benefits		440,711	440,711
Operational		72,467	72,467
Depreciation	139,890	80	139,970
Total operating expenses	<u>2,837,344</u>	<u>513,259</u>	<u>3,350,603</u>
Operating income (loss)	(1,944,269)	(161,742)	(2,106,011)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	1,931,740	41,870	1,973,610
State grants	188,283	62,549	250,832
Transfers in (out)	(110,683)	30,000	(80,683)
Earnings from investments	2,405		2,405
Total nonoperating revenues	<u>2,011,745</u>	<u>134,419</u>	<u>2,146,164</u>
<b>CHANGE IN NET POSITION</b>	67,476	(27,322)	40,154
<b>NET POSITION-BEGINNING</b>	<u>1,967,030</u>	<u>130,292</u>	<u>2,097,322</u>
<b>NET POSITION-ENDING</b>	\$ <u><u>2,034,506</u></u>	\$ <u><u>102,970</u></u>	\$ <u><u>2,137,476</u></u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2014

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Enterprise Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 893,075	\$ 351,517	\$ 1,244,592
Payments to suppliers	(1,470,194)	(63,835)	(1,534,029)
Payments to employees	(1,090,848)	(440,711)	(1,531,559)
Net cash provided (used) by operating activities	(1,667,967)	(153,029)	(1,820,996)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants and contributions	2,120,023	104,419	2,224,442
Net cash provided (used) by noncapital financing activities	2,120,023	104,419	2,224,442
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Transfers	(110,683)	30,000	(80,683)
Net cash provided (used) by capital and related financing activities	(110,683)	30,000	(80,683)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	2,405	-	2,405
Net cash provided (used) by investing activities	2,405	-	2,405
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	343,778	(18,610)	325,168
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	205,402	122,062	327,463
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	\$ 549,180	\$ 103,452	\$ 652,631
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>			
Operating income (loss)	\$ (1,944,269)	\$ (161,742)	\$ (2,106,011)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	139,890	80	139,970
Changes in assets and liabilities:			
Receivables	(13,497)	7,574	(5,923)
Inventories	149,909		149,909
Accrued liabilities		1,058	1,058
Net cash used by operating activities	\$ (1,667,967)	\$ (153,029)	\$ (1,820,996)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$150,418 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$162,187 for the Food Service Fund and \$62,549 for the Day Care Fund provided by state government.

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2014

	<b>School Activity Fund</b>	<b>Private Purpose Trust Fund</b>	<b>Fiduciary Fund Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 208,093	\$ 171,603	\$ 379,696
Accounts receivable, net	45		45
Investments			
Total Assets	208,138	171,603	379,741
<b>LIABILITIES</b>			
Accounts payable	6,390	-	6,390
Due to student groups	201,748		201,748
Total Liabilities	208,138	-	208,138
<b>NET POSITION HELD IN TRUST</b>	\$ -	\$ 171,603	\$ 171,603

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
June 30, 2014

		<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Trust Activities	\$	111,574
Earnings on investments		129
Total Additions		<u>111,703</u>
<b>Deductions</b>		
Benefits paid		<u>126,733</u>
<b>Increase in net position</b>		(15,030)
<b>Net position, June 30, 2013</b>		80,813
<b>Prior period adjustment</b>		105,820
<b>Restated net position, June 30, 2013</b>		<u>186,633</u>
<b>Net position, June 30, 2014</b>	\$	<u><u>171,603</u></u>

See the accompanying notes to the financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2014

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

Reporting Entity

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

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

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

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

Montgomery County Board Of Education Finance Corporation

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

Basis of Presentation

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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

#### SEEK Capital Outlay Fund

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

#### Building (FSPK) Fund

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

#### Construction Fund

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

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

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

The District applies all GASB pronouncements to proprietary funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### III. Fiduciary Fund Types

#### Agency Funds

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

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

#### Basis of Accounting

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.494 per \$100 valuation of real property, \$.495 per \$100 valuation for business personal property and \$.424 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

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

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

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

Budgetary Process

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Cash and Cash Equivalents

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

### Inventories

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

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

### Prepaid Assets

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### Net Position

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

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

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

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

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

**NOTE B – ESTIMATES**

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

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

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

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

	<u>Bank Balance</u>		
	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 125,000	\$ 125,000	\$ 250,000
Securities pledged to district	1,954,305	7,938,517	9,892,822
	<hr/>		
Bank balance	\$ 2,079,305	\$ 8,063,517	\$ 10,142,822
	<hr/>		
	<u>Book Balance</u>		
	<u>Cash Equivalents</u>	<u>Investments</u>	
Governmental Activities	\$ 884,300	\$ 8,020,522	
Business-type Activities	652,631		
Agency funds			
Private Purpose Trust Fund	171,603		
School Activity Funds	208,093		
	<hr/>		
Total carrying amount	<u>\$ 1,916,627</u>	<u>\$ 8,020,522</u>	

There are also investments held at the Bank of New York Mellon in the amount of \$1,708,914. Refer to Note E for a detailed explanation.

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

**NOTE D – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 3,633,803	\$ -	\$ -	\$ 3,633,803
Land improvements	4,588,967	-	65,230	4,523,737
Buildings	84,108,971	181,449	9,000	84,281,421
Technology equipment	3,115,857	-	66,668	3,049,189
Vehicles	4,546,583	795,664	284,556	5,057,691
Infrastructure	136,126	-	-	136,126
General equipment	3,521,660	32,000	19,750	3,533,910
Construction in progress	-	750,839	143,699	607,140
Total at historical cost	<u>\$ 103,651,968</u>	<u>\$ 1,759,952</u>	<u>\$ 588,904</u>	<u>\$ 104,823,016</u>
Less: Accumulated depreciation				
Land improvements	2,477,734	174,333	47,292	2,604,776
Buildings	24,006,198	2,077,211	9,000	26,074,410
Technology equipment	2,285,889	320,505	62,702	2,543,691
Vehicles	2,603,287	321,259	226,468	2,698,079
General equipment	125,111	2,448	-	127,559
Infrastructure	3,308,426	42,831	19,265	3,331,992
Total accumulated depreciation	<u>\$ 34,806,645</u>	<u>\$ 2,938,588</u>	<u>\$ 364,727</u>	<u>\$ 37,380,505</u>
Governmental Activities Capital Assets-net	<u>\$ 68,845,323</u>	<u>\$ (1,178,635)</u>	<u>\$ 224,177</u>	<u>\$ 67,442,511</u>
<u>Business-Type Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Buildings	\$ 1,674,234	\$ -	\$ -	\$ 1,674,234
Technology equipment	27,310	-	1,000	26,310
Vehicles	45,252	-	-	45,252
General equipment	1,412,189	-	-	1,412,189
Total at historical cost	<u>\$ 3,158,986</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 3,157,986</u>
Less: Accumulated depreciation				
Buildings	704,677	47,679	-	752,356
Technology equipment	22,318	2,289	1,000	23,607
Vehicles	30,834	7,340	-	38,175
General equipment	890,766	82,662	-	973,429
Total accumulated depreciation	<u>\$ 1,648,596</u>	<u>\$ 139,970</u>	<u>\$ 1,000</u>	<u>\$ 1,787,566</u>
Business-Type Activities Capital Assets-net	<u>\$ 1,510,389</u>	<u>\$ (139,970)</u>	<u>\$ -</u>	<u>\$ 1,370,419</u>

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

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

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Montgomery County School District Finance Corporation aggregating \$40,736,000 and \$2,035,000 is the portion due within one year.

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

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2014 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Outstanding Balance</u>
Issue of 2010 QSCB's	\$ 12,576,000	12/1/2027	5.875%	\$ 12,576,000	\$ -	\$ -	\$ 12,576,000
Issue of 2011R	8,260,000	4/1/2023	1.7 - 2.9%	8,055,000.00		135,000	7,920,000
Issue of 2007	2,550,000	9/1/2027	3.625-3.875%	2,280,000		70,000	2,210,000
Issue of 1995A	510,000	11/1/2016	3.6-5.5%	100,000		30,000	70,000
Issue of 2008	3,435,000	7/1/2028	3.0-3.5%	1,830,000		345,000	1,485,000
Issue of 2010 BAB's	4,425,000	12/1/2010	3.40 - 5.75%	4,295,000		65,000	4,230,000
Issue of 2005	8,090,000	12/1/2024	3.25-4.3%	6,210,000		370,000	5,840,000
Issue of 2006	3,990,000	10/1/2025	3.25-4%	3,235,000		160,000	3,075,000
Issue of 2003	13,515,000	10/1/2023	2-3.25%	1,435,000		705,000	730,000
Issue of 2007	\$ 3,030,000	9/1/2026	3.9%	2,680,000		80,000	2,600,000
Totals				\$ 42,696,000	\$ -	\$ 1,960,000	\$ 40,736,000

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

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

*SEE SCHEDULE ON NEXT PAGE*

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

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal Rebate</u>		<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		
2015	1,894,177	956,724	140,823	20,651	-	792,451	2,035,000	1,769,826
2016	1,963,869	889,263	131,131	16,378	-	791,618	2,095,000	1,697,259
2017	2,020,161	834,493	109,839	13,234	-	790,725	2,130,000	1,638,453
2018	2,077,128	777,544	107,872	10,736	-	789,833	2,185,000	1,578,113
2019	2,135,758	717,655	69,242	8,224	-	788,911	2,205,000	1,514,790
2020-2024	11,064,172	2,457,477	140,828	21,853	-	3,924,931	11,205,000	6,404,261
2025-2029	17,850,999	686,291	45,001	3,532	-	2,710,002	17,896,000	3,399,825
2030-2032	985,000	37,282	-	-	-	20,075	985,000	57,356
	<u>\$ 39,991,264</u>	<u>\$ 7,356,730</u>	<u>\$ 744,736</u>	<u>\$ 94,608</u>	<u>\$ -</u>	<u>\$ 10,608,545</u>	<u>\$ 40,736,000</u>	<u>\$ 18,059,883</u>

The 2010 “QSCB” bond is a Qualified School Construction Bond. The District is required to make annual payments that are placed into an escrow account. The escrow account is invested and accumulates interest which will retire the bond on December 1, 2027. As of June 30, 2014 the escrow account had accumulated \$1,708,914.

**NOTE F – CAPITAL LEASE PAYABLE**

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

<u>KISTA Issue</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013</u>			<u>2014</u>	
			<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>	
Issue of 2006	3/1/2016	3.3-4%	\$ 64,412		\$ 23,463	\$ 40,949	
Issue of 2006B	3/1/2017	3.5-3.875%	86,908		22,422	64,486	
Issue of 2008	3/1/2018	3.0-3.75%	136,344		27,292	109,052	
Issue of 2009R	12/1/2013	1-2%	79,568		79,568	-	
2nd Issue of 2011	1/1/2011	1-3.6%	154,552		19,178	135,374	
2nd Series of 2012	3/1/2022	.95-2.5%	335,785		41,169	294,616	
First Series of 2013	3/1/2023	2.0%	618,696		67,817	550,879	
Issue of 2003B	3/1/2014	2-3.9%	19,282		19,282	-	
Issue of 2009	3/1/2019	2.0-3.9	198,753		32,532	166,221	
Issue of 2009	3/1/2020	2.0-3.6%	189,940		26,301	163,639	
1st Issue of 2010	3/1/2020	1-3.3%	55,712		7,778	47,934	
1st Issue of 2011	1/1/2011	1-4%	63,541		7,667	55,874	
First Series of 2014	3/1/2024	2-3%	-	609,038	-	609,038	
Totals			<u>\$ 2,003,493</u>	<u>\$ 609,038</u>	<u>\$ 374,469</u>	<u>\$ 2,238,062</u>	

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

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

Fiscal Year Ended	<u>30-Jun</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>			
2015	\$	338,004	\$	56,032	\$	394,036	
2016		330,381		47,908		378,289	
2017		300,863		39,474		340,337	
2018		280,918		31,645		312,563	
2019		254,526		24,449		278,975	
2020-2024		733,370		44,158		777,528	
		<u>\$</u>	<u>2,238,062</u>	<u>\$</u>	<u>243,666</u>	<u>\$</u>	<u>2,481,728</u>
Total minimum lease payments				\$		2,481,728	
Less: Amount representing interest						(243,666)	
Present Value of Net Minimum Lease Payments				\$		2,238,062	

**NOTE G – RETIREMENT PLANS**

Kentucky Teachers’ Retirement System

Plan Description – The Montgomery County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

*Funding Policy* – Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Medical Insurance Plan

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

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

*Funding policy* –In order to fund the post-retirement healthcare benefit, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Montgomery County School System's total payroll for the year was \$26,122,897. The payroll for employees covered under KTRS was \$20,211,441. For the year ended June 30, 2014, the Commonwealth contributed \$2,397,897 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014 were \$337,804, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,630,311, \$2,996,334, and \$2,899,818, respectively.

### County Employees Retirement System

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

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

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus

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

one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$1,185,286 of the employee’s compensation during the fiscal year ended June 30, 2014.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,488,102, \$1,399,902, and \$1,291,199, respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

**NOTE H- COMMITMENTS**

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

<u>Purpose</u>	<u>Amount</u>
Site Based Decision Making Carry Forward	\$ 54,891
Sick Leave	\$ 183,377

The District has committed to renovate McNabb for \$15,139,276 of which \$750,839 has already been spent leaving \$14,388,437 committed for future construction.

**NOTE I - CONTINGENCIES**

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

**NOTE J - LITIGATION**

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

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

**NOTE K – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE L – RISK MANAGEMENT**

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

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

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

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

<u>Fund</u>		<u>Reduction in Fund Balance / Net Position</u>
General Fund	\$	(1,116,910)
Construction Fund		(143,104)
Day Care Fund		(27,322)
School Activity	\$	(49,468)

**NOTE N - COBRA**

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

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

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
Capital Outlay	Debt Service	\$ 418,928	Debt payments
Bldg Fund	Debt Service	3,023,123	Debt payments
Special Revenue	General Fund	5,776	Indirect Costs
Food Service	General Fund	110,683	Indirect Costs
General Fund	Childcare	30,000	Operations
General Fund	Special Revenue	71,314	Grant match
General Fund	Construction Fund	607,140	Construction
Bldg Fund	General Fund	\$ 793,958	Operations

**NOTE P – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Montgomery County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, School Food Services, and Day Care Funds. The amounts recorded for both revenues and expenditures (expenses) are \$6,711,871 for the General Fund, \$152,544 for Debt Service, \$162,187 for the School Food Service Fund, and \$62,549 for the Day Care Fund.

**NOTE Q – RESTRICTED FUNDS**

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 2	Future Construction
Debt Service	1,708,914	Debt Sinking Fund
FSPK	21,100	School Facilities Construction Commission
Capital Outlay	7,002	School Facilities Construction Commission
Food Service	664,287	Food Service Operations
Day Care	\$ 102,770	Day Care Operations

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

**NOTE R – PRIOR PERIOD ADJUSTMENT**

The KSBIT estimated liability was overstated in the prior year causing net position to be understated as follows:

Net Position July 1, 2013	\$ 33,434,484
Prior Period Adjustment	127,665
Restated Net Position July 1, 2013	<u>\$ 33,562,149</u>

Funds held at the High School for the Agricultural Program were transferred to a private purpose trust causing a reclassification of fiduciary net position as follows:

Net Position July 1, 2013	\$ 80,813
Prior Period Adjustment	105,820
Restated Net Position July 1, 2013	<u>\$ 186,633</u>

**NOTE S – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through November 10, 2014, the date the financial statements were available to be issued.

Montgomery County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2014

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 7,002	\$ 21,100	\$ 28,102
Total Assets	7,002	21,100	28,102
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts Payable	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Restricted	7,002	21,100	28,102
Total Fund Balances	7,002	21,100	28,102
Total Liabilities and Fund Balances	\$ 7,002	\$ 21,100	\$ 28,102

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
 For the year ended June 30, 2014

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ -	\$ 2,187,267	\$ 2,187,267
Intergovernmental - State	425,930	1,629,814	2,055,744
Total Revenues	425,930	3,817,081	4,243,011
<b>Expenditures</b>			
Debt Service			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	425,930	3,817,081	4,243,011
<b>Other Financing Sources (Uses)</b>			
Transfers Out	(418,928)	(3,817,081)	(4,236,009)
Total Other Financing Sources (Uses)	(418,928)	(3,817,081)	(4,236,009)
<b>Net Change in Fund Balances</b>	7,002	-	7,002
<b>Fund Balance Beginning</b>	-	21,100	21,100
<b>Fund Balance Ending</b>	\$ 7,002	\$ 21,100	\$ 28,102

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Balance Sheet - School Activity and Private Purpose Trust Funds**  
As of June 30, 2014

	<u>SCHOOL ACTIVITY FUNDS</u>								<u>PRIVATE PURPOSE TRUST FUND</u>	<u>FIDUCIARY FUND TOTAL</u>
	<u>MONTGOMERY CO HIGH SCHOOL</u>	<u>MONTGOMERY CO. INTERMEDIATE</u>	<u>McNABB MIDDLE SCHOOL</u>	<u>CAMARGO ELEMENTARY</u>	<u>CAMARGO CHARITABLE GAMING</u>	<u>MAPLETON ELEMENTARY</u>	<u>MT. STERLING ELEMENTARY</u>	<u>MT. STERLING CHARITABLE GAMING</u>		
<b>Assets</b>										
Cash and cash equivalents	\$ 73,295	\$ 12,281	\$ 37,018	\$ 20,746	\$ 804	\$ 40,710	\$ 20,533	\$ 2,706	\$ 171,603	\$ 379,696
Accounts receivable, net	-	45	-	-	-	-	-	-	-	45
Investments	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<u>73,295</u>	<u>12,326</u>	<u>37,018</u>	<u>20,746</u>	<u>804</u>	<u>40,710</u>	<u>20,533</u>	<u>2,706</u>	<u>171,603</u>	<u>379,741</u>
<b>Liabilities</b>										
Accounts payable	-	1,275	-	-	-	5,115	-	-	-	6,390
<b>Total Liabilities</b>	<u>-</u>	<u>1,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,390</u>
<b>Fund Balance</b>										
School activities	<u>\$ 73,295</u>	<u>\$ 11,051</u>	<u>\$ 37,018</u>	<u>\$ 20,746</u>	<u>\$ 804</u>	<u>\$ 35,595</u>	<u>\$ 20,533</u>	<u>\$ 2,706</u>	<u>\$ 171,603</u>	<u>\$ 373,351</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**- School Activity and Private Purpose Trust Funds**  
For the period ended June 30, 2014

	SCHOOL ACTIVITY FUNDS								PRIVATE PURPOSE TRUST FUND	FIDUCIARY FUND TOTAL
	MONTGOMERY CO. HIGH SCHOOL	MONTGOMERY CO. INTERMEDIATE	MCNABB MIDDLE SCHOOL	CAMARGO ELEMENTARY	CAMARGO CHARITABLE GAMING	MAPLETON ELEMENTARY	MT. STERLING ELEMENTARY	MT. STERLING CHARITABLE GAMING		
<b>Revenues</b>										
Student revenues	\$ 407,754	\$ 58,354	\$ 120,519	\$ 66,236	\$ 3,506	\$ 95,502	\$ 65,529	\$ 1,810	\$ 4,877	\$ 824,085
Earnings on investments									129	129
Contribution trusts									106,697	106,697
Total revenues	<u>407,754</u>	<u>58,354</u>	<u>120,519</u>	<u>66,236</u>	<u>3,506</u>	<u>95,502</u>	<u>65,529</u>	<u>1,810</u>	<u>111,703</u>	<u>930,911</u>
<b>Expenses</b>										
Student activities	417,823	53,093	124,790	79,704	2,702	106,576	68,103	856	-	853,646
Instruction									126,733	126,733
Total expenses	<u>417,823</u>	<u>53,093</u>	<u>124,790</u>	<u>79,704</u>	<u>2,702</u>	<u>106,576</u>	<u>68,103</u>	<u>856</u>	<u>126,733</u>	<u>980,379</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	(10,070)	5,261	(4,271)	(13,468)	804	(11,074)	(2,574)	954	(15,030)	(49,468)
<b>Fund Balance July 1, 2013</b>	189,185	5,790	41,289	34,214	-	46,669	23,107	1,752	80,813	422,819
<b>Prior Period Adjustment</b>	(105,820)								105,820	-
<b>Restated Fund Balance July 1, 2013</b>	<u>83,365</u>	<u>5,790</u>	<u>41,289</u>	<u>34,214</u>	<u>-</u>	<u>46,669</u>	<u>23,107</u>	<u>1,752</u>	<u>186,633</u>	<u>422,819</u>
<b>Fund Balance June 30, 2014</b>	<u>\$ 73,295</u>	<u>\$ 11,051</u>	<u>\$ 37,018</u>	<u>\$ 20,746</u>	<u>\$ 804</u>	<u>\$ 35,595</u>	<u>\$ 20,533</u>	<u>\$ 2,706</u>	<u>\$ 171,603</u>	<u>\$ 373,351</u>

See the accompanying notes to the financial statements.

Montgomery County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Montgomery County High School**  
For the period ended June 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2014
MUSICAL	\$ 10,982	\$ 27,050	\$ 33,550	\$ -	\$ 4,482
ANNUAL 2009-2010	3,148	-	-	(3,148)	-
AG-FARM	97,113	99,811	196,924	-	(0)
ART	3,553	900	1,498	-	2,955
ART CLUB	505	-	-	-	505
ATHLETICS	(93,433)	189,083	89,578	-	6,072
BAND	554	2,732	3,160	82	208
BETA	2,786	1,950	3,944	-	792
CHESS	43	7,083	6,927	-	199
CO-ED-Y	739	13,565	13,234	-	1,070
DECA	56	-	1,202	1,235	89
FCA	108	288	225	-	171
FEA	197	-	-	(197)	-
FFA	937	-	393	417	962
FCCLA	229	741	916	-	54
FRENCH	276	-	-	(276)	-
GENERAL	1,841	14,840	14,244	741	3,179
KIDS COUNT	5,215	1,097	973	-	5,338
MOCK TRIAL	1,782	3,923	2,972	-	2,733
FAMILY & CONSUMER	1,346	1,980	2,086	-	1,240
HORTICULTURE	485	-	-	-	485
JROTC	6,310	2,897	2,554	255	6,908
OPERATION DUSTIN GROSS	4,850	-	2,423	-	2,427
GUIDANCE	2,984	20,028	21,432	-	1,580
KEY CLUB	13	-	-	-	13
STLP	673	900	846	-	727
LIBRARY	1,213	1,472	1,063	-	1,622
MISC/VENDING	2,984	3,137	993	-	5,128
FACULTY VENDING	703	1,535	910	-	1,328
NEWSPAPER	651	120	-	-	771
ORCHESTRA	237	2,465	2,693	82	91
CLASS OF 2017	-	323	-	-	323
SPANISH	404	90	-	-	494
STUDENT COUNCIL	540	500	676	-	365
VOCAL MUSIC	1,504	700	698	82	1,587
VOCATIONAL AGRICULTURE	2,926	-	-	-	2,926
BOBBY J WHITAKER-SCHOLAR	4	-	-	-	4
RAIDER TEAM	255	-	-	(255)	-
CLASS 2015	3,201	2,475	100	-	5,576
CLASS OF 2012	69	-	-	-	69
ANNUAL 2010 - 11,2012-13	4,164	1,280	607	1,912	6,749
CLASS OF 2014	7,758	2,854	10,195	(417)	-
S.E.R.V.E.	-	-	-	-	-
TRI-M	246	-	-	(246)	-
CLASS OF 2013	1,800	-	132	-	1,669
MCHS BOOK CLUB	403	167	431	-	139
CLASS OF 2016	609	1,436	-	-	2,045
CLASS OF 2010	269	-	-	(269)	-
ENGINEERING CLUB	135	331	246	-	220
TOTALS	\$ 83,365	\$ 407,754	\$ 417,823	\$ (0)	\$ 73,295

See the accompanying notes to the financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2014

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had food commodities totaling \$150,418.

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 14		510.4950	\$ N/A	\$ 150,418
Passed through State Department of Education				
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 13		7750002 13	N/A	233,720
Fiscal Year 14		7750002 14	N/A	1,006,609
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 13		7760005 13	N/A	82,674
Fiscal Year 14		7760005 14	N/A	363,078
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 13		7690024 13	N/A	3,563
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 13		7740023 13	N/A	34,296
Child Nutrition Cluster Subtotal				<u>1,723,939</u>
<b>State Administrative Expenses for Child Nutrition</b>	10.560			
Fiscal Year 12		7850012 12	N/A	1,000
<b>Child Care</b>	10.558			
Fiscal Year 13		7790021 13	N/A	2,233
Fiscal Year 14		7790021 14	N/A	6,358
				<u>8,592</u>
Total U.S. Department of Agriculture				<u>1,883,949</u>
U.S. Department of Education				
Passed through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13		3100002 13	1,025,893	41,905
Fiscal Year 13D		3100002 13	180,578	22,517
Fiscal Year 13M		3100002 13	12,525	5,387
Fiscal Year 14		3100002 14	1,084,789	1,045,110
Fiscal Year 14D		3100002 14	109,327	58,597
Fiscal Year 14M		3100002 14	12,525	6,861
<b>Title I, School Improvement</b>	84.010A			
Fiscal Year 14B		3100202 14	112,727	105,328
Fiscal Year 14E		3100202 14	122,941	119,655
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13-Part D Funds		3100102 13	129,137	38,923
Fiscal Year 14-Part D Funds		3100102 14	97,962	77,943
Title I Cluster Subtotal				<u>1,522,228</u>
<b>Migrant Education-State Grant Programs</b>	84.011A			
Fiscal Year 13S		3110002 13	10,293	2,072
Fiscal Year 13		3110002 13	312,230	65,617
Fiscal Year 14		3110002 14	287,372	204,592
				<u>272,281</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 13		3810002 13	910,967	296,503
Fiscal Year 14		3810002 14	713,687	461,452
Fiscal Year 14C		3810002 14	127,134	120,063
Fiscal Year 14P		3810002 14	6,737	6,559
<b>Special Education-E.C. Handicap Grant</b>	84.173A			
Fiscal Year 13		3800002 13	50,161	10,935
Fiscal Year 14		3800002 14	49,526	48,989
Special Education Cluster Subtotal				<u>944,501</u>
<b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 13A		3710002 13	1,938	1,938
Fiscal Year 14		4621332 14	37,146	37,146
				<u>39,084</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	88,538	10,048
Fiscal Year 14		3140002 14	83,143	80,152
				<u>90,200</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	49,964	5,528
* <b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 13		3230002 13	214,828	55,294
Fiscal Year 14		3230002 14	205,346	156,982
				<u>212,277</u>
<b>Limited English Proficiency</b>	84.365			
Fiscal Year 13		3300002 13	21,910	9,642

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
Fiscal Year 14		3300002 14	17,141	<u>17,141</u>
<b>Fund for the Improvement of Education-District Wide Counseling Grant</b>	84.215E			<u>26,783</u>
Fiscal Year 13		5323	399,750	299,275
Fiscal Year 14		5324	399,750	<u>43,444</u>
				<u>342,719</u>
Passed through Workforce Development Cabinet <b>Adult Education State Grant Program</b>	84.002			
Fiscal Year 14-Community Based Work Transition		3714	16,865	<u>16,865</u>
Total U.S. Department of Education				<u><u>3,472,466</u></u>
U.S. Department of Health and Human Services				
Passed through the Department of Community Based Services <b>Child Care</b>	93.596			
Fiscal Year 14		520.4500	83,500	41,870
Passed Through Kentucky School Board Association <b>Medical Assistance Program</b>	93.778			
Fiscal Year 14		110.4810	N/A	<u>149,544</u>
Total U.S. Department of Health and Human Service				<u><u>191,415</u></u>
U.S. Department of Defense				
<b>ROTC</b>	12.000			
Fiscal Year 14		5044	\$ 62,955	<u>62,955</u>
Total U.S. Department of Defense				<u><u>62,955</u></u>
Grand Totals of All Federal Programs				<u>\$ 5,610,785</u>

\* Major Programs

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Montgomery County School District's basic financial statements, and have issued our report thereon dated November 10, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Montgomery County School District, in a separate letter dated November 10, 2014.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

## **Purpose of this Report**

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

*White & Associates, PSC*

Richmond, Kentucky  
November 10, 2014

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

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

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

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

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

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

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

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

*White & Associates, PSC*

Richmond, Kentucky  
November 10, 2014

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2014

**SUMMARY OF AUDITOR’S RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No

Major Programs

Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559]  
 Improving Teacher Quality [CFDA 84.367A]

Dollar threshold of Type A and B programs	\$300,000
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Low risk auditee?	Yes
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**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

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

No findings at the major federal award programs level.

MONTGOMERY COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2014

There were no prior year findings.