

Muhlenberg County School District

Financial Statements

June 30, 2014



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REPORT



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Independent Auditor's Report

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

● Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Muhlenberg County School District (the "District") as of and for the year ended June 30, 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 *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 and budgetary comparison information on pages 7 through 12 and 50 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014 on our consideration of Muhlenberg County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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



FINANCIAL STATEMENTS

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Muhlenberg County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position decreased \$1,698,847. Net position of governmental activities decreased \$1,838,424 from fiscal year 2013. Net position of the business-type activity, which represents food service, increased \$139,577 from fiscal year 2013.
- General revenues accounted for \$47.5M in revenue or 81 percent of all revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$10.97M or 19 percent of total revenues of \$58.5M. General revenues were down by \$567K and the program specific revenues were down by \$1.4M.
- Total revenue was \$58.5M, a decrease of \$2M from FY 2013.
- The Board had \$64.9M in total governmental expenses, including \$9M in the construction fund. Compared to last year governmental expenses were \$62.8M in FY2013 while the construction fund expenses were \$6.8M.
- Investment income was \$193K, a sharp increase of \$150K, due to investing construction bond revenue.
- SEEK net general funding was \$20.5M, which remained the compared to the prior year. Although the SEEK base increased from \$3,833 to \$3,911, there was a slight decrease in enrollment from 2013.
- Total salary and benefit costs increased by \$500K from 2012-13, up to \$47.3M. This includes the state contributions to health insurance and state retirement matches.
- Total general fund current operating expenses were \$47.8M increasing by \$400K from 2012-13, due primarily to the salary and retirement match increases.
- The General Fund ending balance was \$4.2M compared to \$7.7M the prior year, a \$3.4M decrease. The decrease can be primarily attributed to transfer of funds from the general fund to the construction fund for the new tech wing, shrinking state revenue, and staff salary increases. Contingency fund was budgeted at \$3.0M which is 6.1%. The state requires 2%.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014**

OVERVIEW OF FINANCIAL STATEMENTS

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

District-Wide Financial Statements

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

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

District-Wide Financial Statements

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

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

The district-wide financial statements can be found on pages 13 to 16 of this report.

Fund Financial Statements

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

The basic government fund financial statements can be found on pages 17 through 22 of this report.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 49 of this report.

DISTRICT WIDE FINANCIAL ANALYSIS

The perspective of the statement of net position is of the District as a whole. The following table provides a summary of the District's net position for 2014 compared to 2013:

	<u>2013</u>	<u>2014</u>
Current assets	18,556,684	8,736,944
Noncurrent assets	83,044,730	88,723,395
Total assets	\$ 101,601,414	\$ 97,460,339
Deferred outflows of resources	\$ 1,410,387	\$ 1,274,863
Current liabilities	2,670,781	2,331,960
Noncurrent liabilities	42,538,920	40,299,989
Total liabilities	\$ 45,209,701	\$ 42,631,949
Net position		
Investment in capital assets - net of debt	47,319,790	51,482,528
Restricted	7,560,843	2,174,110
Unrestricted fund balance	2,921,467	2,446,615
Total net position	\$ 57,802,100	\$ 56,103,253

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$56,103,253 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.

Total net position decreased \$1,698,847. Net position of the District's governmental activities decreased \$1,838,424. The net position of the District's business-type activity increased \$139,577.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014**

DISTRICT WIDE FINANCIAL ANALYSIS (CONT'D)

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2013 and 2014.

	<u>2013</u>	<u>2014</u>
Revenues:		
Program Revenues		
Charges for services	\$ 1,000,467	\$ 844,834
Operating Grants and Contributions	6,995,540	7,003,709
Capital Grants and Contributions	4,416,105	3,123,845
General Revenue		
Taxes	7,929,527	7,310,853
Other local government units (TVA)	10,076,495	9,541,318
Other taxes	190,867	159,271
State Aid	29,024,915	29,420,717
Investment Earnings	43,463	193,446
Other Revenue	831,733	903,859
Transfers	0	0
Total Revenue	<u>\$ 60,509,112</u>	<u>\$ 58,501,852</u>
Expenses:		
Instructional	\$ 36,893,456	\$ 36,841,763
Student Support	1,878,116	1,761,549
Instructional Support	1,021,364	986,177
District Administration	1,605,281	1,507,908
School Administration	2,309,518	2,426,998
Business Support	1,446,627	1,467,937
Plant Operation & Maintenance	4,956,458	5,343,206
Student Transportation	4,388,066	4,447,014
Other	541,133	618,957
Debt Services	1,276,933	1,356,840
Food Services-Govt	78,074	86,031
Food Services	2,947,884	2,854,880
Day Care	304,292	229,169
Community Education	555	690
Bond issuance cost	59,200	0
Loss on Disposal of Assets	0	271,580
Total Expenses	<u>\$ 59,706,957</u>	<u>\$60,200,699</u>
Excess/Loss of revenue over expenditures	<u>\$ 802,155</u>	<u>\$(1,698,847)</u>

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014**

BUSINESS-TYPE ACTIVITY

The major business-type activity of the District is the food service operation. This program had revenues of \$2.9M and expenses of \$2.8M for fiscal year 2014. The food service operation is self-operating without assistance from the General Fund. The business activity receives no support from tax revenues and continues to be fiscally sound while student lunch prices are among the lowest in the region.

THE DISTRICT'S FUNDS

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$60.2M and expenditures and other financing uses of \$69.5M. Included in the \$69.5M is \$9M in construction fund expenditures. The General Fund balance decreased \$3.5M. This was primarily due to the continued construction fund transfer for the new tech wing.

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$3M in contingency (6.1 percent). The beginning fund balance for the fiscal year was \$7,699,356. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2014, the District amended its General Fund budget as needed. The District uses a centralized budget. The budgeting system is designed to control budgets but allow flexibility for management.

For the General Fund, actual revenues and other financing sources, including state contribution (on-behalf) payments were \$37.9M. Budgeted revenues were \$39.2M. The continued poor economy has had negative effects on the primary revenue sources to the district-- state SEEK, TVA in lieu, local taxes, and state and federal grants.

Original general fund budgeted expenditures were \$42.3M, excluding on-behalf payments made by the State of Kentucky. Actual expenditures were \$38.9M. Note the main reason the District appears over budget is due to on-behalf included in the actuals. The District recorded on-behalf payments in FY2014 totaling \$8.8M (10.6M for all funds) as required by KDE. These revenues and expenditures are not budgeted and do not run directly through the Muhlenberg County School District financial system. These payments are made on behalf of the Muhlenberg County School District by the Commonwealth of Kentucky for employee health insurance, Teachers' Retirement, Vocational Education, and school Facilities Construction Commission (SFCC) offers of assistance. The on-behalf amounts are accounted for once the state provides that info to us after June 30th.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets for governmental activities ended at \$88.2M and Capital assets in business-type activities ended at approximately \$490K.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)

Debt

At June 30, 2014, the District had \$51.3M (principal and interest) in outstanding bonds. This amount does include an estimated \$2.1M that the federal government will pay thru the build America bond series. Bond payments are primarily paid from the Capital Outlay and Building funds. The district paid \$3.6M (including federal rebate) for bond payments for FY 2013. However, this includes \$1.4M from the state for on-behalf paid through the SFCC.

During FY 2014 the District did not have any bond activity.

CURRENT ISSUES

The local environment of the community can significantly impact the finances of the District. Total local generated property taxes decreased from \$7.9M to \$7.3M from FY2013 to FY 2014, which is primarily due to a reduction in collections of franchise taxes. Other revenue sources, such as SEEK are impacted by the enrollment in the District's schools. In FY 2014, these numbers decreased slightly to 5,001. The District must maintain a view that continues to look to the future. Although a slight decrease was realized, enrollment numbers are projected to have minimal fluctuations over the coming years.

The District remains committed to remaining competitive in the educational environment. The beginning teacher salary remained nearly the same at \$36,426 while the top end of the 185 day salary schedule for teachers stands at \$58,650. Employee contracts remain at 185 days for FY2014. The 1% payroll increase compared to the 2 day loss was a wash. Muhlenberg County School District staff salaries still remain competitive in comparison to other Western Kentucky school districts. Staff retention and stability are good across all employee categories and are competitive with neighboring districts. Applicants for all job categories are more plentiful than in recent years. Attrition and staffing levels will be scrutinized during the next fiscal year due to budget concerns. State revenue projections continue to look very bleak and will require that the budget be closely monitored and new initiatives will be closely reviewed. In preparation, the contingency balance was set at \$2.5M. The district is always reviewing for cost savings in transportation, administration, facility maintenance and energy. Debt refinancing is always monitored as some issues mature. At the same time, services and supports have been continued at the schools. This will change if state budget cuts continue. The District will be closely monitoring ways to save money over the next fiscal year due to the general fund balance dropping significantly.

There has been a concerted focus on investing in capital construction considering the age and size of our facilities. The district continues with its top construction priority in the new Tech Wing at the West Campus is currently projected to be a cost of \$13.5M. This will be the District's last construction project for a while due to available funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Muhlenberg County School District
Statement of Net Position

June 30, 2014	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 1,633,447	\$ 841,114	\$ 2,474,561
Investments	4,174,329	-	4,174,329
Accounts receivable:			
Taxes	250,779	-	250,779
Intergovernmental	645,007	50,994	696,001
Pledge receivable	900,000	-	900,000
Inventory	149,578	36,668	186,246
Prepaid expenses	55,028	-	55,028
Nondepreciable capital assets	13,345,483	-	13,345,483
Depreciable capital assets	113,328,642	1,609,620	114,938,262
Less: accumulated depreciation	(38,440,405)	(1,119,945)	(39,560,350)
Total assets	96,041,888	1,418,451	97,460,339
Deferred Outflows of Resources			
Deferred loss on debt refundings	1,274,863	-	1,274,863
Total deferred outflows of resources	1,274,863	-	1,274,863
Liabilities			
Accounts payable	1,459,274	298	1,459,572
Accrued liabilities	456,654	-	456,654
Unearned revenue	194,097	-	194,097
Accrued interest	221,637	-	221,637
Long-term obligations:			
Due within one year:			
Outstanding bonds	2,476,735	-	2,476,735
Compensated absences	1,000,701	16,704	1,017,405
Due beyond one year:			
Outstanding bonds	36,038,995	-	36,038,995
Compensated absences	761,917	4,937	766,854
Total liabilities	42,610,010	21,939	42,631,949

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Net Position

June 30, 2014	Governmental Activities	Business-Type Activities	Total
Net Position			
Invested in capital assets, net of related debt	50,992,853	489,675	51,482,528
Restricted for:			
Capital projects	1,453,939	-	1,453,939
Greenville Library	720,171	-	720,171
Unrestricted	1,539,778	906,837	2,446,615
Total Net Position	\$ 54,706,741	\$ 1,396,512	\$ 56,103,253

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Activities

Year Ended June 30, 2014	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 36,841,763	\$ 12,110	\$ 3,609,604	\$ 235,420	\$ (32,984,629)	\$ -	\$ (32,984,629)
Support services:							
Student	1,761,549	-	37,277	-	(1,724,272)	-	(1,724,272)
Instructional staff	986,177	-	14,961	-	(971,216)	-	(971,216)
District administration	1,507,908	-	-	-	(1,507,908)	-	(1,507,908)
School administration	2,426,998	-	80,736	-	(2,346,262)	-	(2,346,262)
Business	1,467,937	-	240,710	-	(1,227,227)	-	(1,227,227)
Plant operations and maintenance	5,343,206	2,140	37,463	-	(5,303,603)	-	(5,303,603)
Student transportation	4,447,014	-	192,996	-	(4,254,018)	-	(4,254,018)
Other	618,957	-	407,344	-	(211,613)	-	(211,613)
Food service operation	86,031	-	-	-	(86,031)	-	(86,031)
Interest on long-term debt	1,356,840	-	-	2,888,425	1,531,585	-	1,531,585
Loss on disposal of assets	271,580	-	-	-	(271,580)	-	(271,580)
Total governmental activities	57,115,960	14,250	4,621,091	3,123,845	(49,356,774)	-	(49,356,774)
Business-Type Activities:							
Food services	2,854,880	584,424	2,350,531	-	-	80,075	80,075
Community education	690	765	-	-	-	75	75
Day care	229,169	245,395	32,087	-	-	48,313	48,313
Total business-type activities	3,084,739	830,584	2,382,618	-	-	128,463	128,463
Total School District	\$ 60,200,699	\$ 844,834	\$ 7,003,709	\$ 3,123,845	(49,356,774)	128,463	(49,228,311)

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Activities

Year Ended June 30, 2014	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business- Type Activities	Total
General Revenues			
Taxes:			
Property	5,121,237	-	5,121,237
Motor vehicle	971,453	-	971,453
Unmined minerals	279,562	-	279,562
Franchise tax	938,601	-	938,601
Revenue in lieu of taxes	9,541,318	-	9,541,318
Other	159,271	-	159,271
State aid	29,420,717	-	29,420,717
Investment earnings	182,332	11,114	193,446
Other	903,859	-	903,859
Total general revenues and transfers	47,518,350	11,114	47,529,464
Change in Net Position	(1,838,424)	139,577	(1,698,847)
Net Position - Beginning of Year	56,545,165	1,256,935	57,802,100
Net Position - End of Year	\$ 54,706,741	\$ 1,396,512	\$ 56,103,253

See accompanying notes to the financial statements.

Muhlenberg County School District
Balance Sheet
Governmental Funds

June 30, 2014	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 53,847	\$ -	\$ 1,169,810	\$ 409,790	\$ 1,633,447
Investments	3,552,377	-	621,952	-	4,174,329
Accounts receivable:					
Taxes	250,779	-	-	-	250,779
Intergovernmental	-	645,007	-	-	645,007
Due from other funds	746,980	-	-	-	746,980
Inventory	149,578	-	-	-	149,578
Prepaid expenses	55,028	-	-	-	55,028
Total Assets	\$ 4,808,589	\$ 645,007	\$ 1,791,762	\$ 409,790	\$ 7,655,148

See accompanying notes to the financial statements.

Muhlenberg County School District
Balance Sheet
Governmental Funds

June 30, 2014	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 107,731	\$ 3,930	\$ 1,347,613	\$ -	\$ 1,459,274
Accrued liabilities	456,654	-	-	-	456,654
Due to other funds	-	446,980	300,000	-	746,980
Unearned revenue	-	194,097	-	-	194,097
Total liabilities	564,385	645,007	1,647,613	-	2,857,005
Fund Balances					
Nonspendable	204,606	-	-	-	204,606
Restricted	720,171	-	144,149	409,790	1,274,110
Assigned	188,561	-	-	-	188,561
Unassigned	3,130,866	-	-	-	3,130,866
Total fund balances	4,244,204	-	144,149	409,790	4,798,143
Total Liabilities and Fund Balances	\$ 4,808,589	\$ 645,007	\$ 1,791,762	\$ 409,790	\$ 7,655,148

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

June 30,	2014
Total Fund Balances - Governmental Funds	\$ 4,798,143
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$126,674,125 and the accumulated depreciation is \$38,440,405.	88,233,720
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow.	1,274,863
Certain long-term assets are not reported in the governmental funds because they are not available to pay current period expenditures, but they are reported in the statement of net position.	900,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:	
Bonds payable	(38,515,730)
Accrued interest on outstanding bonds	(221,637)
Compensated absences	(1,762,618)
Total Net Position - Governmental Activities	\$ 54,706,741

See accompanying notes to the financial statements.

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

Year Ended June 30, 2014	General Fund	Special Revenue Fund	Contruccion Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 4,351,801	\$ -	\$ -	\$ 769,436	\$ 5,121,237
Motor vehicle	971,453	-	-	-	971,453
Unmined minerals	279,562	-	-	-	279,562
Franchise tax	938,601	-	-	-	938,601
Revenue in lieu of taxes	9,541,318	-	-	-	9,541,318
Other	159,271	-	-	-	159,271
Earnings on investments	182,332	3,199	(7,131)	-	178,400
Other local revenue	875,342	-	300,000	-	1,175,342
Intergovernmental - state	29,420,717	1,660,057	-	2,721,262	33,802,036
Intergovernmental - federal	68,941	3,193,255	-	174,294	3,436,490
Total revenues	46,789,338	4,856,511	292,869	3,664,992	55,603,710
Expenditures					
Current:					
Instruction	30,268,217	3,891,035	-	-	34,159,252
Support services:					
Student	1,719,090	37,277	-	-	1,756,367
Instructional staff	969,776	14,961	-	-	984,737
District administration	1,487,323	-	-	-	1,487,323
School administration	2,345,837	80,736	-	-	2,426,573

See accompanying notes to the financial statements.

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

Year Ended June 30, 2014	General Fund	Special Revenue Fund	Contruction Fund	Other Governmental Funds	Total Governmental Funds
Business	1,225,355	240,710	-	-	1,466,065
Plant operations and maintenance	5,351,361	37,463	-	-	5,388,824
Student transportation	4,094,894	192,996	-	-	4,287,890
Other	211,284	407,344	-	-	618,628
Food service operation	86,031	-	-	-	86,031
Debt service:					
Principal	-	-	-	2,396,004	2,396,004
Interest	-	-	-	1,230,626	1,230,626
Land improvement	11,680	-	-	-	11,680
Building acquisition and construction	-	-	8,635,754	-	8,635,754
Total expenditures	47,770,848	4,902,522	8,635,754	3,626,630	64,935,754
Excess (Deficiency) of Revenues over Expenditures	(981,510)	(46,011)	(8,342,885)	38,362	(9,332,044)
Other Financing Sources (Uses)					
Operating transfers in	-	46,011	2,427,631	2,089,657	4,563,299
Operating transfers out	(2,473,642)	-	-	(2,089,657)	(4,563,299)
Total other financing sources (uses)	(2,473,642)	46,011	2,427,631	-	-
Net Change in Fund Balances	(3,455,152)	-	(5,915,254)	38,362	(9,332,044)
Fund Balances - Beginning of Year	7,699,356	-	6,059,403	371,428	14,130,187
Fund Balances - End of Year	\$ 4,244,204	\$ -	\$ 144,149	\$ 409,790	\$ 4,798,143

See accompanying notes to the financial statements.

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

Year Ended June 30,	2014
Total Net Change in Fund Balances - Governmental Funds	\$ (9,332,044)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$9,083,591) exceeds depreciation expense (\$3,120,598) in the period.</p>	5,962,993
<p>Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain (loss) from the sale net to this amount for the year.</p>	(297,754)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	2,396,004
<p>Pledges received are recognized in the governmental funds as revenue, but the receipt reduces the pledge receivable on the statement of net position.</p>	(300,000)
<p>Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.</p>	(267,623)
<p style="text-align: center;">Change in Net Position - Governmental Activities</p>	<p style="text-align: right;">\$ (1,838,424)</p>

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Net Position
Proprietary Funds

June 30, 2014	Enterprise Fund Food Service	Other Enterprise Funds	Total
Assets			
Current Assets			
Cash	\$ 792,342	\$ 48,772	\$ 841,114
Accounts receivable:			
Intergovernmental	50,994	-	50,994
Inventory	36,668	-	36,668
Total current assets	880,004	48,772	928,776
Noncurrent Assets			
Fixed assets - net	489,675	-	489,675
Total assets	1,369,679	48,772	1,418,451
Liabilities			
Current Liabilities			
Accounts payable	298	-	298
Compensated absences	16,704	-	16,704
Total current liabilities	17,002	-	17,002
Long-Term Liabilities			
Compensated absences	4,937	-	4,937
Total long-term liabilities	4,937	-	4,937
Net Position			
Invested in capital assets	489,675	-	489,675
Unrestricted	858,065	48,772	906,837
Total Net Position	\$ 1,347,740	\$ 48,772	\$ 1,396,512

See accompanying notes to the financial statements.

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

Year Ended June 30, 2014	Enterprise Fund Food Service	Other Enterprise Funds	Total
Operating Revenues			
Lunchroom sales	\$ 584,424	\$ -	\$ 584,424
Tuition and fees	-	246,160	246,160
Total operating revenues	584,424	246,160	830,584
Operating Expenses			
Salaries and wages	1,403,499	217,294	1,620,793
Contract services	18,253	-	18,253
Materials and supplies	1,358,470	11,875	1,370,345
Other operating expenses	2,773	690	3,463
Depreciation expense	65,524	-	65,524
Total operating expenses	2,848,519	229,859	3,078,378
Operating profit (loss)	(2,264,095)	16,301	(2,247,794)
Non-Operating Revenues (Expenses)			
State operating grants	233,709	32,087	265,796
Federal operating grants	1,943,935	-	1,943,935
Donated commodities	172,887	-	172,887
Interest revenue	11,114	-	11,114
Loss on disposal of assets	(6,361)	-	(6,361)
Total non-operating revenues (expenses)	2,355,284	32,087	2,387,371
Change in Net Position	91,189	48,388	139,577
Net Position - Beginning of Year	1,256,551	384	1,256,935
Net Position - End of Year	\$ 1,347,740	\$ 48,772	\$ 1,396,512

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2014	Enterprise Fund Food Service	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from user charges	\$ 705,857	\$ 246,160	\$ 952,017
Cash payments to employees for services	(1,195,409)	(185,207)	(1,380,616)
Cash payments for contract services	(18,253)	-	(18,253)
Cash payments to suppliers for goods and services	(1,164,791)	(11,875)	(1,176,666)
Cash payments for other operating expenses	(2,773)	(865)	(3,638)
Net cash provided by (used in) operating activities	(1,675,369)	48,213	(1,627,156)
Cash Flows from Noncapital Financing Activities			
Nonoperating grants received	1,971,753	-	1,971,753
Net cash provided by noncapital financing activities	1,971,753	-	1,971,753
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(85,309)	-	(85,309)
Net cash used in capital and related financing activities	(85,309)	-	(85,309)
Cash Flows from Investing Activities			
Interest on investments	11,114	-	11,114
Net cash provided by investing activities	11,114	-	11,114
Net Increase in Cash	222,189	48,213	270,402
Cash - Beginning of Year	570,153	559	570,712
Cash - End of Year	\$ 792,342	\$ 48,772	\$ 841,114

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2014	Enterprise Fund Food Service	Other Enterprise Funds	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (2,264,095)	\$ 16,301	\$ (2,247,794)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	65,524	-	65,524
On-behalf payments	205,891	32,087	237,978
Commodities used	172,887	-	172,887
Changes in assets and liabilities:			
Receivables	121,433	-	121,433
Inventories	20,689	-	20,689
Accounts payable	101	(175)	(74)
Accrued benefits	2,201	-	2,201
Net Cash Provided By (Used In) Operating Activities	\$ (1,675,369)	\$ 48,213	\$ (1,627,156)

Noncash Activities

- The food service fund received \$ 172,887 of donated commodities from the federal government.
- The District received on-behalf payments of \$237,978 relating to insurance benefits.

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2014	Agency Funds
Assets	
Cash	\$ 684,771
Total Assets	\$ 684,771
Liabilities	
Accounts payable	\$ 2,925
Due to student groups	681,846
Total Liabilities	\$ 684,771

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

● **Reporting Entity**

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

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

● ***Basis of Presentation***

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

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

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

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

▶ **Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund of the District.

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

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

▶ **Proprietary Fund Types**

Enterprise Funds

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

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

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

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

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

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

Agency Funds

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

● **Basis of Accounting**

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

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

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial

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

Note 1: Summary of Significant Accounting Policies (Continued)

resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

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

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

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

● **Investments**

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

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds and transportation supplies in the General Fund, which record inventory at the lower of cost, determined by first-in first-out (“FIFO”) method, or market.

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

Note 1: Summary of Significant Accounting Policies (Continued)

● **Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 with the exception of computer workstations and laptops for which there is a \$1,000 threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

● ***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.

● ***Compensated Absences***

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

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

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

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

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

● ***Net Position***

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

● **Property Taxes**

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

● **Revenues — Exchange and Nonexchange Transactions**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and

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

Note 1: Summary of Significant Accounting Policies (Continued)

donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● ***Interfund Activity***

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

● ***Interfund Balances***

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

● ***Contributions of Capital***

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

● ***Operating Revenues and Expenses***

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

● ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through November 12, 2014, which was the date the financial statements were made available.

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

Note 1: Summary of Significant Accounting Policies (Continued)

• **New Accounting Pronouncements**

Recently Issued Accounting Pronouncements

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

Note 2: Cash and Investments

• **Deposits**

At June 30, 2014, the carrying amounts of the District's cash and investments in deposits were \$3,190,420 and the bank balances were \$3,854,231, which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

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

June 30,	2014
Governmental funds- investments	\$ 1,633,447
Governmental funds- cash	841,114
Proprietary funds	684,771
Fiduciary funds	-
	\$ 3,159,332

▶ **Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$3,854,231 was not exposed to custodial credit risk as of June 30, 2014.

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

Note 2: Cash and Investments (Continued)

● **Investments**

The District's investments, which are stated at fair market value, at June 30, 2014 are as follow:

June 30, 2014			
Investment	Rating	Maturities	Fair Value
PFM Governmental Pool	NA	-	\$ 31,088
Money Market- federated prime value	NA	On Demand	621,952
Chevron Corp Stock	NA	-	177,287
Exxon Mobile Corp	NA	-	471,686
Money Market-Goldman Sachs Fin Square	NA	-	42,520
Fed Nat Mtg Assoc 5.057%	Aaa	12/8/2028	493,119
Fed Home Ln Mtg Gold Pool 4%	Aaa	10/1/2021	16,325
Fed Nat Mtg Assoc Arm Pool	Aaa	10/1/2034	29,210
Fed Nat Mtg Assoc Arm Pool	Aaa	8/1/1934	42,556
Fed Nat Mtg Assoc Arm Pool	Aaa	1/1/1935	38,826
Fed Nat Mtg Assoc Arm Pool	Aaa	10/1/2020	190,582
Fed Home Ln Bk Ser 5K	Aaa	4/20/2017	63,647
Fed Nat Mtg Assoc Ser 2012-93	Aaa	9/25/1942	289,325
Fed Nat Mtg Assoc Ser 2011-86	Aaa	9/25/2021	321,330
Fed Home Ln Mtg Ser 3935	Aaa	10/15/2021	87,276
Fed Home Ln Mtg Ser 4060	Aaa	6/15/2022	295,448
Fed Home Ln Mtg Ser 3829	Aaa	8/15/2024	107,756
SLC Student LN TR Ser 2006-2	Aaa	9/15/2026	196,228
Ridgeworth US Govt Secs Ultra Short Bd	AA	-	50,049
Fed Nat Mtg Assoc Ser 2011-56	Aaa	7/25/2018	93,459
Fed Nat Mtg Assoc Ser 2010	Aaa	1/25/2024	93,756
Fed Home Ln Mtg Ser 3683	Aaa	6/15/2020	176,895
Fed Home Ln Mtg Ser 3747	Aaa	10/15/2018	109,579
Fed Home Ln Mtg Ser 3649	Aaa	12/15/2018	134,430
			\$ 4,174,329

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

Note 2: Cash and Investments (Continued)

▶ *Interest Rate Risk*

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

▶ *Credit Risk*

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

▶ *Concentration of Credit Risk*

The District's investment policy places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in **Error! Not a valid link.** and **Error! Not a valid link..** These investments are 21.83% and 30.93% respectively, of the District's total investments.

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2014 consist of the following:

June 30, 2014		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 446,980
General Fund	Construction Fund	300,000

The amounts represent interfund loans between the general fund and special revenue fund and the construction fund that are necessary to fulfill the current cash requirements of these funds.

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

Note 4: Capital Assets

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

June 30, 2014	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 2,510,490	\$ 23,000	\$ 142,293	\$ 2,391,197
Construction in progress	3,426,154	8,635,753	1,107,621	10,954,286
Total non-depreciable historical cost	5,936,644	8,658,753	1,249,914	13,345,483
Capital assets that are depreciated:				
Land improvements	2,316,163	87,136	-	2,403,299
Buildings and improvements	95,665,791	1,063,219	1,132,500	95,596,510
Technology equipment	4,983,580	51,788	157,715	4,877,653
Vehicles	7,098,380	251,580	20,000	7,329,960
General	3,055,399	78,736	12,915	3,121,220
Total depreciable historical cost	113,119,313	1,532,459	1,323,130	113,328,642
Less accumulated depreciation for:				
Land improvements	1,279,651	86,672	-	1,366,323
Buildings and improvements	23,702,824	2,170,057	982,036	24,890,845
Technology equipment	4,182,753	284,200	157,216	4,309,737
Vehicles	5,141,524	425,345	20,000	5,546,869
General	2,180,724	154,324	8,417	2,326,631
Total accumulated depreciation	36,487,476	3,120,598	1,167,669	38,440,405
Total depreciable historical cost, net	76,631,837	(1,588,139)	155,461	74,888,237
Governmental Activities, Capital Assets, Net	\$ 82,568,481	\$ 7,070,614	\$ 1,405,375	\$ 88,233,720

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

Note 4: Capital Assets (Continued)

June 30, 2014	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 130,186	\$ -	\$ 106,000	\$ 24,186
Technology equipment	2,166	-	-	2,166
General	1,501,959	85,309	4,000	1,583,268
Total depreciable historical cost	1,634,311	85,309	110,000	1,609,620
Less accumulated depreciation for:				
Buildings and improvements	116,383	3,077	99,641	19,819
Technology equipment	2,130	-	-	2,130
General	1,039,549	62,447	4,000	1,097,996
Total accumulated depreciation	1,158,062	65,524	103,641	1,119,945
Business-Type Activities, Capital Assets, Net	\$ 476,249	\$ 19,785	\$ 6,359	\$ 489,675

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2014
Instruction	\$ 2,594,739
Support services:	
Student support	5,182
Instructional staff	1,440
District administration	20,585
School administration	425
Business support	1,872
Facilities operations	131,466
Student transportation	364,560
Other	329
Total Depreciation Expense	\$ 3,120,598

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

Note 5: Long-Term Obligations

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

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

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Muhlenberg County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has US Treasury Build America Bonds outstanding which requires the US Treasury to subsidize the District for 35% of the interest cost for the outstanding bonds.

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

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

Note 5: Long-Term Obligations (Continued)

Year	Muhlenberg County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2014-2015	\$ 1,436,686	\$ 833,036	\$ 1,040,049	\$ 322,632	\$ 186,239	\$ 3,818,642
2015-2016	1,495,223	796,321	1,063,310	299,370	183,555	3,837,779
2016-2017	1,528,097	762,230	1,087,193	275,487	180,114	3,833,121
2017-2018	1,569,343	725,901	1,055,657	251,419	176,252	3,778,572
2018-2019	1,604,616	686,565	1,080,384	226,646	171,958	3,770,169
2019-2020	1,648,518	643,439	1,106,482	200,518	166,872	3,765,829
2020-2021	1,704,496	589,802	1,005,504	172,980	158,763	3,631,545
2021-2022	1,745,864	540,720	1,029,136	149,348	147,641	3,612,709
2022-2023	1,786,407	488,960	1,053,593	124,891	135,927	3,589,778
2023-2024	1,838,260	434,423	1,056,740	99,741	123,478	3,552,642
2024-2025	1,326,827	384,016	253,173	74,586	110,140	2,148,742
2025-2026	1,231,553	334,731	263,447	64,311	95,988	1,990,030
2026-2027	1,265,542	285,319	274,458	53,302	80,719	1,959,340
2027-2028	1,219,010	233,111	215,990	41,453	64,302	1,773,866
2028-2029	1,254,141	181,166	225,859	31,585	46,862	1,739,613
2029-2030	1,287,526	125,843	242,474	20,734	28,479	1,705,056
2030-2031	1,326,922	67,763	213,078	10,062	9,518	1,627,343
2031-2032	507,143	30,817	67,857	4,133	-	609,950
2032-2033	520,106	15,603	69,894	2,097	-	607,700
	\$ 26,296,280	\$ 8,159,766	\$ 12,404,278	\$ 2,425,295	\$ 2,066,807	\$ 51,352,426

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

Note 5: Long-Term Obligations (Continued)

Changes in long-term obligations are as follows:

June 30, 2014	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 41,096,562	\$ -	\$ (2,396,004)	\$ 38,700,558	\$ 2,476,735
Less (discounts)/premiums	(198,292)	-	13,464	(184,828)	-
Total bonds and notes payable	40,898,270	-	(2,382,540)	38,515,730	2,476,735
Other liabilities:					
Compensated absences	1,621,210	209,099	(67,691)	1,762,618	1,000,701
Total other liabilities	1,621,210	209,099	(67,691)	1,762,618	1,000,701
Total Long-Term Liabilities	\$ 42,519,480	\$ 209,099	\$ (2,450,231)	\$ 40,278,348	\$ 3,477,436
Business-Type Activities:					
Other liabilities:					
Compensated absences	\$ 19,440	\$ 8,326	\$ (6,125)	\$ 21,641	\$ 16,704
Total Long-Term Liabilities	\$ 19,440	\$ 8,326	\$ (6,125)	\$ 21,641	\$ 16,704

Note 6: Fund Balances

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

Nonspendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. At June 30, 2014, the District had \$204,606 nonspendable in the general fund related to inventory and prepaid expenses.

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

Note 6: Fund Balances (Continued)

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$144,149 restricted for capital projects in the construction fund and \$720,171 restricted in the general fund for Greenville Library, \$371,428 restricted for prior year SFCC offer and \$38,362 restricted for capital projects in the FSPK Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District did not have any commitments in the general fund at June 30, 2014.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The District has assigned \$188,561 in the general fund for site-base carry forward at June 30, 2014. Assigned fund balances also include (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014 in the governmental funds balance sheet.

Note 7: Pension Plans

● **Plan Descriptions**

The Muhlenberg County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS), and the County

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

Note 7: Pension Plans (Continued)

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

● **Funding Policy**

KTRS plan members are required to contribute 11.355% of their covered salary. The CERS plan members are required to contribute **Error! Not a valid link. (Error! Not a valid link.** for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky and the District are required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.61% for the Commonwealth and 1.5% for the District of annual covered payroll. The rate for CERS is 18.89%, 19.55% and 18.96% for the years ended June 30, 2014, 2013 and 2012, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013 and 2012 were \$1,491,035, \$1,530,898 and \$1,420,536, respectively, equal to the required contributions for each year.

For the year ended June 30, 2014 the Commonwealth contributed \$3,172,190 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2014 were \$692,427.

● **Medical Insurance Plan**

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

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

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

Note 7: Pension Plans (Continued)

retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013–2014 fiscal year.

● ***Deferred Compensation Plans***

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

Note 8: Contingencies

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

Note 9: Concentrations

For the year ended June 30, 2014, the District received \$9,541,318 from the Tennessee Valley Authority (TVA) as payment in-lieu-of-tax, which represented 17.2% of the total governmental fund revenues.

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

Note 10: Risk Management

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

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

Note 11: Litigation

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

Note 12: Excess Expenditures over Appropriations

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

Year ended June 30, 2014	
Fund	Amount
General	\$ 3,455,152
Construction	5,915,254

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

Note 13: Fund Transfers

Fund transfers for the year ended June 30, 2014 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General Fund	Special Revenue Fund	Matching	\$ 46,011
Operating	General Fund	Construction Fund	Construction	2,427,631
Operating	SEEK	Debt Service	Debt Service	460,112
Operating	FSPK	Debt Service	Debt Service	1,629,545

Note 14: On-behalf Payments

The District receives on-behalf payments from the State of Kentucky and the US Treasury for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2014, was \$10,610,211. These payments were recorded as follows:

Year ended June 30, 2014	
Fund	Amount
General Fund	\$ 8,835,260
Debt Service Fund	1,536,973
Food Service Fund	205,891
Day Care Fund	32,087
Total	\$ 10,610,211

Note 15: Subsequent Event

On July 1, 2014, the District issued a \$1,100,000 bond for use in the construction of the Technology Wing construction project.

Muhlenberg County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2014	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Local and intermediate sources	\$ 18,551,115	\$ 18,551,115	\$ 17,299,680	\$ (1,251,435)
State programs	20,610,614	20,610,614	20,585,457	(25,157)
Federal programs	90,000	90,000	68,941	(21,059)
Total revenues	39,251,729	39,251,729	37,954,078	(1,297,651)
Expenditures				
Current:				
Instruction	23,099,658	23,099,658	23,269,156	(169,498)
Support services:				
Student	1,497,397	1,497,397	1,472,141	25,256
Instructional staff	927,593	927,593	839,889	87,704
District administration	1,682,599	1,682,599	1,399,490	283,109
School administration	2,104,406	2,104,406	2,026,212	78,194
Business	1,014,956	1,014,956	1,006,375	8,581
Plant operations and maintenance	4,995,053	4,995,053	4,955,576	39,477
Student transportation	3,751,884	3,751,884	3,693,066	58,818
Other	189,157	189,157	186,884	2,273
Food service operations	70,723	70,723	75,119	(4,396)
Contingency	2,995,723	2,995,723	-	2,995,723
Land improvements	12,000	12,000	11,680	320
Total expenditures	42,341,149	42,341,149	38,935,588	3,405,561

Muhlenberg County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2014	Budgeted Amounts		Actual (Budgetary Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Excess (Deficiency) of Revenues over Expenditures	(3,089,420)	(3,089,420)	(981,510)	2,107,910
Other Financing Sources (Uses)				
Operating transfers - net	(3,858,950)	(3,858,950)	(2,473,642)	1,385,308
Total other financing sources (uses)	(3,858,950)	(3,858,950)	(2,473,642)	1,385,308
Net change in Fund Balance	(6,948,370)	(6,948,370)	(3,455,152)	3,493,218
Fund Balance-Beginning of Year	6,948,370	6,948,370	7,699,356	750,986
Fund Balance- End of Year	\$ -	\$ -	\$ 4,244,204	\$ 4,244,204

Muhlenberg County School District
Budgetary Comparison Schedule for the General Fund

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

Inflows/revenues:

Actual amounts (budgetary basis) \$ 37,954,078

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 8,835,260

Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund

Balances - Governmental Funds \$ **46,789,338**

Outflows/expenditures:

Actual amounts (budgetary basis) \$ 38,935,588

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budget amounts 8,835,260

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund

Balances - Governmental Funds \$ **47,770,848**

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

Year Ended June 30, 2014	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ -	\$ 3,199	\$ 3,199
State programs	1,478,881	1,495,995	1,660,057	164,062
Federal programs	2,940,876	2,882,676	3,193,255	310,579
Total revenues	4,419,757	4,378,671	4,856,511	477,840
Expenditures				
Current:				
Instruction	3,748,044	3,659,654	3,891,035	(231,381)
Support services:				-
Student	52,849	52,849	37,277	15,572
Instructional staff	20,197	112,083	14,961	97,122
School administration	-	-	80,736	(80,736)
Business	3,800	3,800	240,710	(236,910)
Plant operations and maintenance	-	-	37,463	(37,463)
Student transportation	188,950	188,950	192,996	(4,046)
Other	405,917	407,346	407,344	2
Total expenditures	4,419,757	4,424,682	4,902,522	(477,840)
Excess (Deficiency) of Revenues over Expenditures	-	(46,011)	(46,011)	-

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

Year Ended June 30, 2014	Budgeted Amounts		Actual (GAAP Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Other Financing Sources (Uses)				
Operating transfers - net	-	46,011	46,011	-
Total other financing sources (uses)	-	46,011	46,011	-
Net Change in Fund Balance	-	-	-	-
Fund Balance-Beginning of Year	-	-	-	-
Fund Balance-End of Year	\$ -	\$ -	\$ -	\$ -

Muhlenberg County School District
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2014	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Assets				
Cash	\$ -	\$ 409,790	\$ -	\$ 409,790
Total Assets	\$ -	\$ 409,790	\$ -	\$ 409,790
Fund Balances				
Fund Balances Restricted				
Capital projects	\$ -	\$ 38,362	\$ -	\$ 38,362
Prior year SFCC offer	-	371,428	-	371,428
Total Fund Balances	\$ -	\$ 409,790	\$ -	\$ 409,790

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

Year Ended June 30, 2014	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 769,436	\$ -	\$ 769,436
Intergovernmental - state	460,112	898,471	1,362,679	2,721,262
Intergovernmental - federal	-	-	174,294	174,294
Total revenues	460,112	1,667,907	1,536,973	3,664,992
Expenditures				
Debt service:				
Principal	-	-	2,396,004	2,396,004
Interest	-	-	1,230,626	1,230,626
Total expenditures	-	-	3,626,630	3,626,630
Excess (Deficiency) of Revenues over Expenditures	460,112	1,667,907	(2,089,657)	38,362
Other Financing Sources (Uses)				
Operating transfers in	-	-	2,089,657	2,089,657
Operating transfers out	(460,112)	(1,629,545)	-	(2,089,657)
Total other financing sources (uses)	(460,112)	(1,629,545)	2,089,657	-
Net Change in Fund Balances	-	38,362	-	38,362
Fund Balances - Beginning of Year	-	371,428	-	371,428
Fund Balances - End of Year	\$ -	\$ 409,790	\$ -	\$ 409,790

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

June 30, 2014	Community Education	Day Care	Total Other Enterprise Funds
Assets			
Cash	\$ 459	\$ 48,313	\$ 48,772
Total assets	459	48,313	48,772
Net Position			
Unrestricted	459	48,313	48,772
Total Net Position	\$ 459	\$ 48,313	\$ 48,772

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

Year Ended June 30, 2014	Community Education	Day Care	Total Other Enterprise Funds
Operating Revenues			
Tuition and fees	\$ 765	\$ 245,395	\$ 246,160
Total operating revenues	765	245,395	246,160
Operating Expenses			
Salaries and wages	-	217,294	217,294
Materials and supplies	-	11,875	11,875
Other operating expenses	690	-	690
Total operating expenses	690	229,169	229,859
Operating income	75	16,226	16,301
Nonoperating Revenues			
State operating grants	-	32,087	32,087
Total nonoperating revenues	-	32,087	32,087
Change in Net Position	75	48,313	48,388
Net Position - Beginning of Year	384	-	384
Net Position - End of Year	\$ 459	\$ 48,313	\$ 48,772

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

Year Ended June 30, 2014	Community Education	Day Care	Total Other Enterprise Funds
Cash Flows from Operating Activities			
Cash received from user charges	\$ 765	\$ 245,395	\$ 246,160
Cash payments to employees for services	-	(185,207)	(185,207)
Cash payments to suppliers for goods and services	-	(11,875)	(11,875)
Cash payments for other operating	(865)	-	(865)
Net cash provided by (used in) operating activities	(100)	48,313	48,213
Net Increase in Cash	(100)	48,313	48,213
Cash - Beginning of Year	559	-	559
Cash - End of Year	\$ 459	\$ 48,313	\$ 48,772
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income	\$ 75	\$ 16,226	\$ 16,301
Adjustments to reconcile operating income to net cash provided by operating activities			
On-behalf payments	-	32,087	32,087
Changes in assets and liabilities:			
Accounts payable	(175)	-	(175)
Net Cash Provided By (Used In) Operating Activities	\$ (100)	\$ 48,313	\$ 48,213

Muhlenberg County School District
Combining Statement of Fiduciary Net Position
All Schools
Agency Funds

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June 30, 2014	Cash July 1, 2013	Receipts	Disbursements	Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
Bremen Elementary School	\$ 40,550	\$ 62,472	\$ 68,638	\$ 34,384	\$ -	\$ -	\$ 34,384
Central City Elementary School	45,878	96,896	80,405	62,369	-	-	62,369
Greenville Elementary School	31,658	98,615	99,628	30,645	-	-	30,645
Longest Elementary School	68,489	140,150	171,345	37,294	-	-	37,294
Muhlenberg South Elementary School	34,223	116,435	107,683	42,975	-	-	42,975
Muhlenberg North Middle School	92,311	126,260	111,575	106,996	-	-	106,996
Muhlenberg South Middle School	45,178	125,037	115,836	54,379	-	-	54,379
Muhlenberg County West Campus	215,182	598,341	589,053	224,470	-	2,925	221,545
Muhlenberg County East Campus	90,694	283,508	282,943	91,259	-	-	91,259
Total	\$ 664,163	\$ 1,647,714	\$ 1,627,106	\$ 684,771	\$ -	\$ 2,925	\$ 681,846

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – West Campus

Year ended June 30, 2014	Cash			Cash	Accounts	Accounts	Due to Student
	July 1, 2013	Receipts	Disbursements				
							June 30, 2014
General	\$ 3,429	\$ 16,907	\$ 6,867	\$ 13,469	\$ -	\$ -	\$ 13,469
High School Fees	530	433	487	476	-	-	476
Library	4,330	130	188	4,272	-	-	4,272
Teachers' Materials	924	2,963	24	3,863	-	-	3,863
Student Snacks	2,164	8,499	8,619	2,044	-	-	2,044
Extra Work to Board	-	4,055	4,055	-	-	-	-
Athletics	12,159	102,532	99,108	15,583	-	-	15,583
Football	666	34,631	31,644	3,653	-	-	3,653
Boys' Golf	2	-	2	-	-	-	-
Tennis	4,018	2,426	3,728	2,716	-	-	2,716
Softball	974	4,308	5,282	-	-	-	-
Concessions	13,295	40,907	47,296	6,906	-	-	6,906
Boys' Basketball	123	15,579	15,607	95	-	-	95
Girls' Basketball	2,507	12,188	11,660	3,035	-	-	3,035
Athletic Boosters	2,181	33,992	22,995	13,178	-	-	13,178
Girls' Golf	1,000	9,195	4,513	5,682	-	-	5,682
Boys' Soccer	1,504	3,332	4,411	425	-	-	425
Track Team	352	5,331	3,370	2,313	-	-	2,313
Girls' Soccer	200	4,931	4,377	754	-	-	754
Developmental Basketball	2,525	3,129	3,559	2,095	-	-	2,095
Volleyball	216	350	566	-	-	-	-
Band	1,416	5,253	6,114	555	-	-	555
Chorus	652	615	1,140	127	-	-	127
JROTC College Credit	11	-	-	11	-	-	11
FFA	5,534	9,615	12,444	2,705	-	-	2,705

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – West Campus

	Cash			Cash	Accounts	Accounts	Due to Student Groups
Year ended June 30, 2013	July 1, 2013	Receipts	Disbursements	June 30, 2014	Receivable	Payable	June 30, 2014
Family and Consumer Science	1,796	9,361	9,512	1,645	-	-	1,645
FCCLA	558	597	857	298	-	-	298
Industrial Arts	1,398	-	-	1,398	-	-	1,398
Business Department	806	-	806	-	-	-	-
Computer Department	1,597	-	1,597	-	-	-	-
Music Department	108	77	-	185	-	-	185
FFA Field Trips	282	-	-	282	-	-	282
FFA Banquet	989	2,702	2,104	1,587	-	-	1,587
Lady Mustangs Basketball Classi	627	7,008	6,492	1,143	-	-	1,143
Football Boosters Club	3,005	-	3,005	-	-	-	-
Boys' Soccer Booster Club	250	-	250	-	-	-	-
Girls' Soccer Booster Club	916	-	916	-	-	-	-
Cheerleader Booster Club	2,311	-	2,311	-	-	-	-
Boys' Basketball Booster Club	1,773	-	1,773	-	-	-	-
Girls' Basketball Booster Club	500	-	500	-	-	-	-
Bass Fishing Team	47	11,730	9,064	2,713	-	2,561	152
STLP Club	807	68	249	626	-	-	626
FMD Class	2	-	2	-	-	-	-
Felix Martin - Dual Credit Fund	169	-	169	-	-	-	-
Softball Boosters	4,309	-	4,309	-	-	-	-
Dual Credit Fees Aid	-	1,500	1,444	56	-	-	56
Felix Martin Hall Activities	-	15,117	15,117	-	-	-	-
FFA National Convention	93	12,464	10,338	2,219	-	-	2,219
English Department	5	-	5	-	-	-	-
Math Department	293	45	-	338	-	-	338

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – West Campus

Year ended June 30, 2013	Cash			Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
Science Department	33	-	9	24	-	-	24
Art Department	79	171	250	-	-	-	-
Yearbook	36,285	25,893	40,009	22,169	-	-	22,169
Social Studies	408	-	-	408	-	-	408
Drama Department	222	13,649	8,097	5,774	-	-	5,774
Dance Team	423	3,396	3,408	411	-	-	411
Mythology Class	606	-	-	606	-	-	606
Cheerleaders	4,112	26,784	16,511	14,385	-	-	14,385
Drama Club	508	239	-	747	-	-	747
Cedar Grant	234	-	-	234	-	-	234
National Honor Society	442	2,129	1,528	1,043	-	-	1,043
Academic Team	-	20	20	-	-	-	-
Writing Account	561	-	561	-	-	-	-
Spirit Club	653	3,187	2,217	1,623	-	-	1,623
FBLA Club	-	70	-	70	-	-	70
Art Club	258	510	265	503	-	-	503
Technolgy Club	100	-	100	-	-	-	-
Senior Beta Club	1,225	14,295	9,579	5,941	-	364	5,577
STLP Club	-	272	-	272	-	-	272
Math Club	614	720	689	645	-	-	645
Science and Technology Club	262	2,054	2,261	55	-	-	55
Student Council	334	46	105	275	-	-	275
Scholarship Fund	3,500	8,000	10,500	1,000	-	-	1,000
Bill Gatton Foundation Scholarsl	250	10,159	10,409	-	-	-	-
JROTC	2,926	32,127	31,915	3,138	-	-	3,138

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – West Campus

	Cash			Cash	Accounts	Accounts	Due to Student
Year ended June 30, 2013	July 1, 2013	Receipts	Disbursements	June 30, 2014	Receivable	Payable	Groups
							June 30, 2014
Christian Athletic Club	229	-	229	-	-	-	-
KYA	94	440	440	94	-	-	94
JROTC Air Rifle Team	-	1,861	1,086	775	-	-	775
Freshman 2009/Interventions	1,685	-	1,685	-	-	-	-
Class of 2013	3,542	-	-	3,542	-	-	3,542
Class of 2014	11,716	5,953	11,435	6,234	-	-	6,234
Class of 2015	-	19,446	17,273	2,173	-	-	2,173
Youth Service Center	6,297	2,850	3,410	5,737	-	-	5,737
Guidance Department	2,228	5,513	5,054	2,687	-	-	2,687
Relay for Life	53	845	800	98	-	-	98
YSC-Child Abuse Awareness	150	-	-	150	-	-	150
MCHS Recycling Committee	343	-	43	300	-	-	300
Special Education Account	44	47	-	91	-	-	91
Anime Club	196	-	-	196	-	-	196
"Denise Baker Scholarship" Fund	-	1,880	-	1,880	-	-	1,880
Historical Foundation	45	-	45	-	-	-	-
S.A.D.D. Club	303	-	303	-	-	-	-
MCHS Newspaper	435	838	750	523	-	-	523
DECA Club	5,112	2,880	3,841	4,151	-	-	4,151
Swim Team	3,009	3,085	1,805	4,289	-	-	4,289
Project Prom	379	13,028	11,505	1,902	-	-	1,902
Student Celebrations	4,262	504	4,317	449	-	-	449
Greenhouse	9,402	5,567	3,863	11,106	-	-	11,106
FFA Grant	28	-	-	28	-	-	28
Wildlife Management	6,093	6,437	6,058	6,472	-	-	6,472

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – West Campus

Year ended June 30, 2013	Cash			June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
Multicultural Club	-	836	181	655	-	-	655
Future Educators of America	322	640	799	163	-	-	163
George Taylor Classic	14,088	-	-	14,088	-	-	14,088
Central Screen Printing T-Shirts	6,050	-	6,050	-	-	-	-
Spanish Honor Society	1,689	-	772	917	-	-	917
Total	\$ 215,182	\$ 598,341	\$ 589,053	\$ 224,470	\$ -	\$ 2,925	\$ 221,545

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – East Campus

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Year ended June 30, 2014	Cash			Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
General Fund	\$19,995	\$63,870	\$68,633	\$ 15,232	\$ -	\$ -	\$ 15,232
Watson Family Fund	-	10	-	10	-	-	10
Memorial Fund/Flower Fund	152	234	385	1	-	-	1
Student Picture Commission	892	-	892	-	-	-	-
FRYSC	-	2,738	2,227	511	-	-	511
KYA	-	3,401	3,300	101	-	-	101
Class Trips	8	-	-	8	-	-	8
Relay for Life	488	900	1,388	-	-	-	-
Vending Drinks	1,690	-	1,690	-	-	-	-
Central Screen T-Shirts	5	-	5	-	-	-	-
Rewards	3,769	3,688	1,486	5,971	-	-	5,971
Extra Salary/Board	-	75	75	-	-	-	-
Athletic Store Sales	-	180	180	-	-	-	-
09/10 Band	1	3,017	2,924	94	-	-	94
Target Take Charge of Edu. Program	241	-	241	-	-	-	-
AP Test Fees	170	-	-	170	-	-	170
Guidance	82	1,087	953	216	-	-	216
Chorus	50	-	50	-	-	-	-
Teacher's Lounge	407	3,495	3,779	123	-	-	123
Greenhouse	13,140	5,226	3,497	14,869	-	-	14,869
Intro Shop Materials	754	2,360	896	2,218	-	-	2,218
Equine Science	36	1,664	1,365	335	-	-	335
Farm Machinery Show	-	3,640	3,601	39	-	-	39
Breathitt Vet Center	39	-	-	39	-	-	39
State Fair Account	-	491	489	2	-	-	2

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – East Campus

Year ended June 30, 2014	Cash			Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
Meat Stick Account	3,629	7,835	9,218	2,246	-	-	2,246
PLC	-	411	411	-	-	-	-
FFA Banquet	-	150	90	60	-	-	60
FFA T-Shirt/Hoodies	168	20	-	188	-	-	188
FFA POLOs	-	942	542	400	-	-	400
FFA Jackets	14	1,987	2,000	1	-	-	1
FFA Fruit	2,930	6,502	6,122	3,310	-	-	3,310
FFA Camp	1,185	4,725	5,425	485	-	-	485
Recycling Fund	14	-	-	14	-	-	14
Land Judging Fund	1	-	-	1	-	-	1
AG	14	482	441	55	-	-	55
FFA Dues	231	2,868	1,321	1,778	-	-	1,778
National Convention	-	5,885	5,685	200	-	-	200
Medical Explorers	-	110	62	48	-	-	48
Family/Consumer	87	5,337	4,833	591	-	-	591
FCCLA	2,008	4,397	4,095	2,310	-	-	2,310
SADD	-	215	-	215	-	-	215
Mustang Anglers	1,011	630	1,375	266	-	-	266
Art Club	227	755	830	152	-	-	152
Art/Whitehouse	-	866	837	29	-	-	29
Art/Midkiff	144	1,196	1,270	70	-	-	70
Academic Team	-	2,828	2,828	-	-	-	-
JROTC Fundraiser	-	7,441	7,441	-	-	-	-
FCA	25	-	25	-	-	-	-
JROTC Drill Team	1,309	-	192	1,117	-	-	1,117

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – East Campus

Year ended June 30, 2014	Cash			Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
Crafting Club	91	145	136	100	-	-	100
Freshman Academy	-	6,104	3,025	3,079	-	-	3,079
Guitar Club	61	-	61	-	-	-	-
Dare 2 B Club	1,237	560	448	1,349	-	-	1,349
German Club	-	20	-	20	-	-	20
Math Club	415	101	167	349	-	-	349
Future Educators	1,142	-	-	1,142	-	-	1,142
Need Project Mini Grant	150	-	-	150	-	-	150
Aviation	-	246	246	-	-	-	-
Foreign Language	96	526	362	260	-	-	260
STLP	1,494	386	-	1,880	-	-	1,880
TravelOdyssey	330	120	-	450	-	-	450
Media	401	273	41	633	-	-	633
AP History/Geography	268	-	-	268	-	-	268
Sr. Beta	1,688	5,770	7,458	-	-	-	-
Yearbook	191	-	191	-	-	-	-
Jr. Beta	179	7,518	6,523	1,174	-	-	1,174
Drama Club	1,174	261	254	1,181	-	-	1,181
Student Government	784	1,081	-	1,865	-	-	1,865
DECA	105	495	222	378	-	-	378
Multicultural	115	73	187	1	-	-	1
FBLA Club	283	65	61	287	-	-	287
Book Rental	-	12,246	12,246	-	-	-	-
Spirit Club	5,961	3,288	7,068	2,181	-	-	2,181
PLTW	-	776	567	209	-	-	209

Muhlenberg County School District
Statement of Fiduciary Net Position
School Activity Funds
Muhlenberg County High School – East Campus

Year ended June 30, 2014	Cash			Cash June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
	July 1, 2013	Receipts	Disbursements				
Sports Club	1,662	1,309	1,992	979	-	-	979
Chess Club	56	255	-	311	-	-	311
Community Service Club	283	-	283	-	-	-	-
Student Council	140	-	140	-	-	-	-
Humanities/Journalism	-	37	-	37	-	-	37
Library	160	431	130	461	-	-	461
MS Softball	-	5,906	5,154	752	-	-	752
Archery	1,581	12,277	11,665	2,193	-	-	2,193
Softball	-	18,132	12,231	5,901	-	-	5,901
Baseball Club	22	-	-	22	-	-	22
Baseball	478	320	477	321	-	-	321
Varsity Baseball Boosters	4,123	14,905	16,419	2,609	-	-	2,609
Baseball 15 & Under League	2,020	4,569	6,452	137	-	-	137
Cross Country	160	14,753	13,645	1,268	-	-	1,268
Boys Soccer	-	5,280	4,565	715	-	-	715
Girls' Golf	5,444	-	5,444	-	-	-	-
Boys' Golf	731	9,079	6,401	3,409	-	-	3,409
Volleyball	651	4,543	3,481	1,713	-	-	1,713
Volleyball Boosters	2,102	-	2,102	-	-	-	-
Total	\$ 90,694	\$ 283,508	\$ 282,943	\$ 91,259	\$ -	\$ -	\$ 91,259

Muhlenberg County School District
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Child Nutrition Cluster			
Food Distribution Program- noncash Passed-Through State Department of Education:	10.555	--	\$ 172,887
School Breakfast Program	10.553	7760005 13	464,276
National School Lunch Program	10.555	7750002 13	1,479,659
Total U.S. Department of Agriculture			2,116,822
U.S. Department of Defense			
ROTC	12.000	--	93,353
Total U.S. Department of Defense			93,353
U.S. Department of Education			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2013	84.010	3100002 12	591,119
Title I to Local Educational Agencies - 2014	84.010	3100002 13	<u>854,875</u>
Subtotal			1,445,994
Special Education Cluster			
Special Education - 2012	84.027	3810002 11	2,741
Special Education - 2013	84.027	3810002 12	699,615
Special Education - 2014	84.027	3810002 13	431,591
Special Education - Preschool - 2014	84.173	3800002 13	<u>57,781</u>
Subtotal			1,191,728
Perkins - 2013	84.048	4621332 12	3,023
Perkins - 2014	84.048	4621332 13	<u>57,953</u>
Subtotal			60,976
Rural/Low Income School Program - Title VI - 2012			
	84.358	3140002 11	15,828
Rural/Low Income School Program - Title VI - 2013			
	84.358	3140002 12	<u>73,663</u>
Subtotal			89,491
Improving Teacher Quality - 2014	84.367	3230002 13	287,738

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Muhlenberg County School District
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed-Through State Workforce Cabinet: Community Based Work Transition	84.126	3764	23,975
Total U.S. Department of Education			3,099,902
Total Expenditures of Federal Awards			\$ 5,310,077

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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

Note 1: Basis of Presentation

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

Note 2: Summary of Significant Accounting Policies

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

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

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Muhlenberg County School District
Summary Schedule of Prior Year Audit Findings

▪ **Finding 2013-003 U.S. Department of Education – Special Education Cluster**

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

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

Current Status: The recommendation was adopted for the year ended June 30, 2014. No similar findings were noted in the 2014 audit regarding this program.

▪ **Finding 2013-004 U.S. Department of Education – Rural and Low-Income Schools**

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

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

Current Status: The recommendation was adopted for the year ended June 30, 2014. No similar findings were noted in the 2014 audit regarding this program.



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**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Muhlenberg County School District's basic financial statements and have issued our report thereon dated November 12, 2014.

● **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be

prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item number 2014-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item numbers 2014-002, 2014-003, 2014-004 and 2014-005 to be significant deficiencies.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-002. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Independent Auditor's Contract – State Compliance Requirements*, except as noted above.

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

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

- **Purpose of this Report**

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2014



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

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

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

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

● **Management's Responsibility**

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

● **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence

about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

● **Opinion on Each Major Federal Program**

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

● **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 the 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.

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

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2014

Muhlenberg County School District
Schedule of Findings and Questioned Costs

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs: unmodified

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

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

Identification of major federal program:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

▪ **2014-001 Financial Reporting**

Criteria and Condition: The internal control structure over financial reporting should be such that material misstatements in the District’s financial statements are prevented or detected and corrected on a timely basis. Proposed material audit adjustments were made to cash, accounts receivable, accounts payable, accrued liabilities, revenue and expenses to correct the District’s balances.

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

Effect: Financial statements could contain undetected errors.

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

Views of Responsible Officials and Planned Corrective Actions:

Tighter GAAP measures will be put in place to include:

- Bank reconciliations will be double checked to ensure accuracy.
- Accounts Payable and Accrued Liabilities will be better regulated through the use of a purchase order system.
- Revenue – need guidance on how to address this one.
- Tighter controls on invoices will help to manage expenses better.

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

▪ **2014-002 Investments**

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

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

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

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

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

▪ **2014-003 Financial Management**

Criteria and Condition: Over the past several years, the District has been using General Fund cash reserves in the construction of campus facilities in addition to operating in a culture of lax policies over spending. Financial projections of these occurrences and the impact they may have on the District's finances have not been considered in a timely matter.

Cause: The financial oversight of the District's operations has not been structured to appropriately monitor and address the District's use of General Fund cash in capital projects and operations.

Effect: The District could be exposed to financial difficulties.

Recommendation: The District's management needs to analyze the operations of the District to ensure costs are being properly managed and make adjustments to spending practices, as needed, in a timely manner. The use of General Fund cash in capital acquisitions needs to be monitored on an annual basis to ensure General Fund cash is not impacted negatively.

Views of Responsible Officials and Planned Corrective Actions: The district is in the process of implementing a new purchase order (PO) system. This will allow the District to more closely monitor spending in the various departments and categories. Additionally, the District will be developing better budgeting methods wherein budgets will be created by determining actual need rather than basing future spending on previous years' expenditures.

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

▪ **2014-004 Information Technology (IT) – General Controls**

Criteria and Condition: The finance officer, who performs general ledger accounting functions, also assigns user access rights and has rights to all accounting modules.

Cause: These conditions have been created because of the small and limited staff in the IT and finance departments.

Effect: Proper segregation of duties does not exist over user access rights which increases the risk that unauthorized transactions are not prevented or detected and corrected in a timely manner.

Recommendation: The District should implement compensating controls to assist in reducing the risk from these control deficiencies. To further improve the internal controls, the assigning of user access rights should be performed by someone independent of the general ledger and current rights should be evaluated.

Views of Responsible Officials and Planned Corrective Actions: The District will conduct a review of current access levels and adjust those user's access rights accordingly. Additionally, access rights will be assigned by position rather than name as is the current structure.

▪ **2014-005 Fixed Assets**

Criteria and Condition: Fixed assets should be reviewed and reconciled by management.

Cause: Certain internal controls were not in place to detect, prevent or correct misstatements in fixed asset balances.

Effect: Fixed asset balances could be materially incorrect without being detected by management.

Recommendation: The District should implement controls to monitor and reconcile fixed asset activity and balances to ensure proper reporting.

Views of Responsible Officials and Planned Corrective Actions: Fixed assets will be monitored closely throughout the year to ensure proper categorization and status.



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

Section III — Federal Award Findings and Questioned Costs

None reported.



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

In planning and performing our audit of the financial statements of Muhlenberg County School District (the "District") for the year ended June 30, 2014, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated November 12, 2014 contains our report on the District's internal control. This letter does not affect our report dated November 12, 2014 on the financial statements of the District.

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 12, 2014

Muhlenberg County School District Comments and Recommendations (Continued)

Current Year and Prior Year

• Central Office

- During our procedures, we noted that invoices are not documented as approved on a consistent basis. We recommend all invoices be documented by initialing and dating to show the proper approval prior to being paid.
- During our procedures over bidding, we noted one instance of a vendor with purchases in excess of \$20,000 that was not properly bid. We recommend all items over \$20,000 be bid and the bidding process be monitored as required by regulations.
- During our procedures over disbursements, we noted invoices are not stamped paid. We recommend all paid invoices be marked as paid to avoid double payment of invoices.
- During our review of the bank reconciliations, we noted unusual reconciling items as well as balances that did not reconcile to the general ledger balances. We recommend variances in the reconciliation process be resolved and the bank reconciliations be reviewed by someone other than the preparer.
- During our review of the District's cash, we noted many bank accounts. We recommend the accounts be reviewed for any that could be closed and transferred into one centralized account.
- During our review of the accounting records, we noted that there were Food Service expenses recorded in the General Fund. We recommend all Food Service expenses be recorded in Food Service so that there is a more accurate indication of the operations of that function.
- During our review of procurement, we noted that purchase orders are not used for all purchases. We recommend, in order to obtain and document, proper approval of expenditures, purchase orders be used for all purchases over a set threshold.
- During our review of disbursements, we noted cellular phone bills that were being paid without approval that contained overage charges. We recommend that cellular phone usage be monitored and approved by the appropriate personnel.

• Muhlenberg County High School - East Campus

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

Muhlenberg County School District Comments and Recommendations (Continued)

• Muhlenberg County High School - West Campus

- During our review of ticket sales, we noted that receipts from ticket sales are not deposited in a timely manner on a consistent basis. We recommend that all receipts collected from ticket sales from school events be deposited at least the day following the event when it is after school hours. Undeposited receipts should be secure until a deposit is made.
- During our review of the bank statements, we noted large deposits made 3-4 times each month. We recommend receipts be recorded in the accounting system when received and all deposits over \$100 be made on a daily basis.

• Greenville Elementary School

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

• Longest Elementary School

- During our inquiries regarding the activity funds, we noted that budgets and the annual report of receipts and disbursements and cash balances are not obtained from supporting organizations. We recommend budgets and annual reports are obtained from supporting organizations in accordance with Redbook requirements.
- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases on a consistent basis. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.

• Muhlenberg North Middle School

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

Muhlenberg County School District Comments and Recommendations (Continued)

Current Year

• South Elementary

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

• Muhlenberg South Middle School

- During our procedures over disbursements, we noted that the receipt of merchandise is not properly documented for purchases on a consistent basis. We recommend the packing slip be initialed by the person receiving the merchandise to ensure all items are received before payment is remitted.
- During our procedures over disbursements, we noted that purchase orders are not signed by the person requesting the purchase on a consistent basis. We recommend the person requesting the purchase sign the purchase in accordance with Redbook requirements.
- During our inquiries regarding the activity funds, we noted that sign in/sign out forms are not maintained on credit cards. We recommend sign in/sign out forms be maintained on the credit cards in order to strengthen controls and ensure that all purchases are approved.

• Muhlenberg County High School - East Campus

- During our inquiries over ticket sales, we noted that the duties of ticket seller and ticket taker are not segregated. We recommend that the duties of ticket seller and ticket taker be segregated to ensure proper controls over gate receipts.

• Muhlenberg County High School - West Campus

- During our procedures over disbursements, we noted that checks are not being signed by two individuals on a consistent basis. We recommend all checks are signed by two authorized individuals as required by the Redbook.

Muhlenberg County School District
Management Responses
June 30, 2014

Prior Year

• **Central Office**

- Invoices are monitored for proper approval. However, closer review will be conducted throughout the coming year.
- Vendor has become part of the Kentucky Purchasing Cooperative. Additionally, various items are purchased throughout the year wherein an aggregate of over \$20,000 is possible.
- Our accounts payable system requires an invoice number be placed in such system prior to any payment made. However, invoices will be closely monitored and marked as paid.
- CFO will conduct final review of reconciled accounts and provide training when necessary. Additionally, CFO will initial and date when reviewed.
- Accounts are being closed.
- The expenses noted from the General Fund for Food Service are lunchroom monitors placed in some of the locations. Food service has indicated that these monitors cannot be paid from their funds as they do not directly relate to food preparation. However, indirect cost opportunities will be explored.
- A purchase order system is currently being set up and will be implemented.
- All phone bills are reviewed by the supervisor in the respective department. We are consolidating all phones as possible.

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

- MCHS will ensure all invoices are marked paid when disbursement has been made.

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

- Ticket sales receipts are deposited the following day after the event. Deposits are locked in a safe until the following day. The deposit is then taken to the bank on a daily basis at the end of the work day. However, the bank cutoff time is prior to making the deposit, therefore creating a day delay in processing.
- Deposits are made on a daily basis. However, due to timing of the deposits a delay is created in the statement.

Muhlenberg County School District
Management Responses
June 30, 2014

- **Greenville Elementary School**

- Packing slips are required to be signed and dated prior to returning to the finance secretary. Occasionally, items arrive with no packing slip in the packaging. In these instances it is requested the party that placed the order sign and date the invoice with a note indicating what items were received.

- **Longest Elementary School**

- Longest Elementary does obtain budgets and annual reports of receipts and disbursements and cash balances for supporting organizations in the VBS accounting system. However, we will disburse a copy of this monthly to the supporting organizations for review.
- Longest Elementary staff receiving merchandise is initialing packing slip consistently to ensure all items are received before payment is remitted.

- **Muhlenberg North Middle School**

- Packing slips will be required to be turned into the office as soon as an order is received.

Current Year

- **South Elementary**

- South Elementary staff has been informed to check the contents of the package and then date and sign once all merchandise has been received. If items are missing, adjustments must be made to the purchase order.

- **Muhlenberg South Middle School**

- Packing slips are required to be signed and dated prior to returning to the finance secretary. Occasionally, items arrive with no packing slip in the packaging. In these instances it is requested the party that placed the order sign and date the invoice with a note indicating what items were received.
- Often, there is more than one person in charge of the activity account (team teachers, head coach and assistant coach. etc.). Sometimes the coach is not on staff to sign the purchase order. In these instances, we will try to find the coach that is at the school. Both parties have control over the activity fund.
- Credit cards are now consistently signed in and out.

Muhlenberg County School District
Management Responses
June 30, 2014

- **Muhlenberg County High School - East Campus**
 - We are aware of the need for segregation at these events. However, at smaller events the cost of placing the additional ticket taker outweighs the benefit of this control.

- **Muhlenberg County High School - West Campus**
 - MCHS West will ensure all checks are signed by more than one individual.



THOUGHT LEADERSHIP



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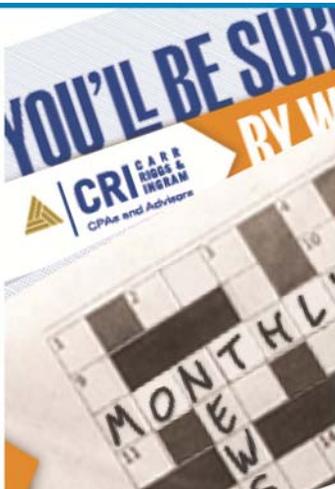
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