

**MONTGOMERY COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015  
WITH  
REPORT OF INDEPENDENT AUDITORS**

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District, as of and for the year ended June 30, 2015, 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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





**Cloyd & Associates, PSC**  
*Certified Public Accountants*  
*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District, as of June 30, 2015, 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 per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The combining and individual nonmajor fund financial statements 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 the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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**Cloyd & Associates, PSC**  
*Certified Public Accountants*

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 13, 2015, on our consideration of Montgomery County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montgomery County School District's internal control over financial reporting and compliance.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 13, 2015

The management of Montgomery County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2015. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

## **FINANCIAL HIGHLIGHTS**

- The beginning general fund balance for the district was \$7,839,078.
- General Fund has decreased by \$20,129 leaving an end of year fund balance of \$7,818,949.
- The District's outstanding debt, excluding KISTA debt payments, is \$57,621,618.
- The General Fund received \$36,800,427 in revenue, which primarily consisted of SEEK program, property, utility and motor vehicle taxes. This amount includes \$1,475,184 in approved transfers in from construction, capital outlay, building, special revenue, and food service funds. There was \$36,820,556 in general fund expenditures. This includes \$107,271 of transfers to match KETS technology and community education.
- The greater amount of revenue is spent on instruction expenditures. This makes up 57.29% of the general fund expenditures. The instruction function includes the site based decision making (SBDM) expenditures for staff and supplies. The student support services make up 5.87% which includes attendance services, guidance counseling, health services, psychological testing, speech, and hearing services. The instructional staff makes up 2.8% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent's office expenses. The school administration support makes 3.84% which includes principals, high school/middle school guidance and secretary's expenses. The business support services makes up 3.86% which includes the finance office and other central office expenditures. The plant operation and management, a construction makes up 11%. The student transportation makes up 8.71%. Debt services makes up 1.07%.

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 9 to 19 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 used 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.

### **Net Position for the period ending June 30, 2015**

Fiscal year 2015 government-wide net position compared to 2014 is as follows:

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
Year ended June 30, 2015

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	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 20,656,993	\$ 10,739,330
Capital assets	72,867,828	68,812,930
Total Assets	<u>\$ 93,524,821</u>	<u>\$ 79,552,260</u>
Deferred outflow of resources	<u>\$ 1,435,253</u>	<u>\$ 373,345</u>
Current liabilities	\$ 4,690,629	\$ 3,048,456
Noncurrent liabilities	63,006,862	41,574,036
Total Liabilities	<u>\$ 67,697,491</u>	<u>\$ 44,622,492</u>
Deferred inflow of resources	<u>\$ 886,000</u>	<u>-</u>
Net investment in capital assets, net	\$ 16,279,673	\$ 26,212,213
Restricted net position	10,216,911	2,742,342
Unrestricted net position	(120,001)	6,348,559
Total Net Position	<u>\$ 26,376,583</u>	<u>\$ 35,303,114</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$25,366,077; proprietary assets exceeded liabilities by \$1,010,506 and total assets exceeded liabilities by \$26,376,583 at June 30, 2015

The District had an overall decrease in unrestricted net position of \$6,468,560, comprised of a decrease in governmental activities unrestricted net position of \$6,468,560.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2015 and 2014.

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
Year ended June 30, 2015

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	<u>2015</u>	<u>2014</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	\$ 10,115,057	\$ 9,566,111
State revenue sources	30,798,546	29,686,433
Federal revenue	4,554,855	4,420,184
<b>Total revenue</b>	<u>45,468,458</u>	<u>43,672,728</u>
<b>Expenditures and other financing uses</b>		
Instruction	24,690,379	24,042,434
Student support services	2,664,940	2,739,566
Instructional support	2,045,661	1,693,138
District administration	1,850,387	1,213,923
School administration	1,409,926	1,899,125
Business operations	1,448,967	1,308,563
Plant operation and maintenance	4,217,899	3,761,074
Student transportation	3,267,945	2,546,745
Building acquisition and construction	6,715,882	750,839
Community services	341,895	326,745
Debt service	4,257,389	4,223,295
<b>Total expenditures</b>	<u>52,911,270</u>	<u>44,505,447</u>
<b>Excess revenues (expenditures)</b>	<u>\$ (7,442,812)</u>	<u>\$ (832,719)</u>
<b>Other financing sources (uses)</b>		
Sale of assets	\$ 77,857	\$ 86,401
Proceeds from bonds	25,540,000	-
Deposits with escrow agents	(9,867,357)	-
Costs of debt	(172,643)	-
Proceeds from capital leases	629,706	-
Transfers in	5,289,636	5,030,922
Transfers out	(5,205,217)	(4,950,239)
<b>Total other financing sources (uses)</b>	<u>\$ 16,291,982</u>	<u>\$ 167,084</u>
<b>Net change in fund balance</b>	<u>\$ 8,849,170</u>	<u>\$ (665,635)</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

## **BUDGETARY IMPLICATION**

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with 13.06% in contingency.

### **Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2015 were \$34,617,680 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$689,175 more than budget or 2.03% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2015 was \$37,610,324.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$4,872,751 or 11.47% less than budget.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

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

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION  
June 30, 2015

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,010,274	\$ 885,110	\$ 11,895,384
Investments	7,637,823	-	7,637,823
Accounts receivable:			
Taxes	344,243	-	344,243
Other	2,638	-	2,638
Intergovernmental - State	1,824	15,320	17,144
Intergovernmental - Federal	702,037	-	702,037
Inventory	-	57,724	57,724
Capital Assets, net		-	-
Nondepreciable	10,653,085	-	10,653,085
Depreciable	60,862,198	1,352,545	62,214,743
<b>Total assets</b>	<b>91,214,122</b>	<b>2,310,699</b>	<b>93,524,821</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred amounts from refunding bonds	422,609	-	422,609
Deferred pension contributions	844,039	168,605	1,012,644
	1,266,648	168,605	1,435,253
<b>LIABILITIES</b>			
Accounts payable	862,995	112	863,107
Unearned revenue	457,945	-	457,945
Current portion of KSBIT assessment payable	153,871	-	153,871
Current portion of capital lease obligations	398,639	-	398,639
Current maturities of bond obligations	2,365,000	-	2,365,000
Interest payable	452,067	-	452,067
Net pension liability	6,614,656	1,321,344	7,936,000
Noncurrent portion of KSBIT assessment payable	456,983	-	456,983
Noncurrent portion of capital lease obligations	2,131,125	-	2,131,125
Noncurrent maturities of bond obligations	52,116,000	-	52,116,000
Noncurrent portion of accumulated sick leave	366,754	-	366,754
<b>Total liabilities</b>	<b>66,376,035</b>	<b>1,321,456</b>	<b>67,697,491</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred amounts from pension	738,658	147,342	886,000
<b>NET POSITION</b>			
Net investment in capital assets	14,927,128	1,352,545	16,279,673
Restricted for:			
Capital expenditures	8,244,536	-	8,244,536
Debt Service	2,259,812	-	2,259,812
Other	54,602	(342,039)	(287,437)
Unrestricted	(120,001)	-	(120,001)
<b>Total net position</b>	<b>\$ 25,366,077</b>	<b>\$ 1,010,506</b>	<b>\$ 26,376,583</b>



**MONTGOMERY COUNTY SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2015**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental activities</b>							
Instruction	\$ 29,267,053	\$ 130,335	\$ 10,517,917		\$ (18,618,801)	\$ -	\$ (18,618,801)
Student	2,991,883	-	1,210,487		(1,781,396)	-	(1,781,396)
Instructional support	2,250,461	-	1,395,861		(854,600)	-	(854,600)
District administration	2,062,536	-	247,114		(1,815,422)	-	(1,815,422)
School administration	1,564,891	-	390,692		(1,174,199)	-	(1,174,199)
Business operations	1,599,365	-	424,246		(1,175,119)	-	(1,175,119)
Plant operations and maintenance	4,738,995	-	852,023		(3,886,972)	-	(3,886,972)
Student transportation	3,296,945	-	733,947		(2,562,998)	-	(2,562,998)
Building improvements	303,740	-	-		(303,740)	-	(303,740)
Community services	374,331	-	346,528		(27,803)	-	(27,803)
Interest on long-term debt	2,079,601	-	-	806,843	(1,272,758)	-	(1,272,758)
<b>Total governmental activities</b>	<b>50,529,801</b>	<b>130,335</b>	<b>16,118,815</b>	<b>806,843</b>	<b>(33,473,808)</b>	<b>-</b>	<b>(33,473,808)</b>
<b>Business-type activities</b>							
Food service	2,819,724	741,369	2,359,014	-	-	280,659	280,659
Child care and camp funds	492,398	349,950	135,944	-	-	(6,504)	(6,504)
<b>Total business-type activities</b>	<b>3,312,122</b>	<b>1,091,319</b>	<b>2,494,958</b>	<b>-</b>	<b>-</b>	<b>274,155</b>	<b>274,155</b>
<b>Total primary government</b>	<b>\$ 53,841,923</b>	<b>\$ 1,221,654</b>	<b>\$ 18,613,773</b>	<b>\$ 806,843</b>	<b>(33,473,808)</b>	<b>274,155</b>	<b>(33,199,653)</b>
<b>General revenues</b>							
Taxes:							
					6,517,576	-	6,517,576
					679,077	-	679,077
					2,152,389	-	2,152,389
					27,741	-	27,741
					198,183	1,971	200,154
					22,512,069	-	22,512,069
					396,168	-	396,168
					84,419	(84,419)	-
					Gain/(loss) on disposal of assets		
					(31,763)	-	(31,763)
					<b>Total general revenues</b>	<b>(82,448)</b>	<b>32,453,411</b>
					<b>Change in net position</b>	<b>191,707</b>	<b>(746,242)</b>
					<b>Net position as of June 30, 2014, restated</b>	<b>818,799</b>	<b>27,122,825</b>
					<b>Net position as of June 30, 2015</b>	<b>\$ 1,010,506</b>	<b>\$ 26,376,583</b>
					<b>\$ 25,366,077</b>		

The accompanying notes are an integral part of these financial statements

# MONTGOMERY COUNTY SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2015

	General Fund	Special Revenue Funds	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ -	\$ 8,941,320	\$ 2,259,812	\$ 54,602	\$ 11,255,734
Investments	7,637,823	-	-	-	-	7,637,823
Accounts receivable:						
Taxes	344,243	-	-	-	-	344,243
Other	2,638	-	-	-	-	2,638
Intergovernmental - State	-	1,824	-	-	-	1,824
Intergovernmental - Federal	-	702,037	-	-	-	702,037
<b>Total assets</b>	<u>\$ 7,984,704</u>	<u>\$ 703,861</u>	<u>\$ 8,941,320</u>	<u>\$ 2,259,812</u>	<u>\$ 54,602</u>	<u>\$ 19,944,299</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Checks written in excess of account balance	\$ -	\$ 245,460	\$ -	\$ -	\$ -	\$ 245,460
Accounts payable	165,755	456	696,784	-	-	862,995
Accrued expense	-	-	-	-	-	-
Unearned revenue	-	457,945	-	-	-	457,945
Sick leave payable	-	-	-	-	-	-
<b>Total liabilities</b>	<u>165,755</u>	<u>703,861</u>	<u>696,784</u>	<u>-</u>	<u>-</u>	<u>1,566,400</u>
<b>Fund balances</b>						
Restricted	-	-	8,244,536	2,259,812	54,602	10,558,950
Committed	433,460	-	-	-	-	433,460
Assigned	-	-	-	-	-	-
Unassigned	7,385,489	-	-	-	-	7,385,489
<b>Total fund balances</b>	<u>7,818,949</u>	<u>-</u>	<u>8,244,536</u>	<u>2,259,812</u>	<u>54,602</u>	<u>18,377,899</u>
<b>Total liabilities and fund balances</b>	<u>\$ 7,984,704</u>	<u>\$ 703,861</u>	<u>\$ 8,941,320</u>	<u>\$ 2,259,812</u>	<u>\$ 54,602</u>	<u>\$ 19,944,299</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**

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

**Year ended June 30, 2015**

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Total fund balances - governmental funds	\$ 18,377,899
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	71,515,283
Deferred outflow of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the Statement of Net Position.	1,266,648
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(54,481,000)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(2,529,764)
The long term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(366,754)
KSBIT assessment payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(610,854)
Net pension obligation is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(6,614,656)
Deferred inflow of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the Statement of Net Position.	(738,658)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	<u>(452,067)</u>
Total net position - governmental activities	<u>\$ 25,366,077</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended June 30, 2015

	General Fund	Special Revenue Funds	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes						
Property	\$ 4,291,460	\$ -	\$ -	\$ -	\$ 2,226,117	\$ 6,517,577
Motor vehicle	679,077	-	-	-	-	679,077
Utility	2,152,389	-	-	-	-	2,152,389
Other	27,741	-	-	-	-	27,741
Earnings on investments	64,621	261	67,555	65,746	-	198,183
Student activities	203,687	68,242	-	-	-	271,929
Other local	192,742	75,419	-	-	-	268,161
Intergovernmental - State	26,875,628	1,621,594	-	167,519	2,133,805	30,798,546
Intergovernmental - Federal	130,335	3,785,196	-	639,324	-	4,554,855
<b>Total revenues</b>	<b>34,617,680</b>	<b>5,550,712</b>	<b>67,555</b>	<b>872,589</b>	<b>4,359,922</b>	<b>45,468,458</b>
<b>Expenditures</b>						
Current:						
Instruction	21,014,630	3,675,749	-	-	-	24,690,379
Student	2,156,424	508,516	-	-	-	2,664,940
Instructional support	1,028,054	1,017,607	-	-	-	2,045,661
District administration	1,848,821	1,566	-	-	-	1,850,387
School administration	1,409,926	-	-	-	-	1,409,926
Business operations	1,417,040	31,927	-	-	-	1,448,967
Plant operations and maintenance	4,180,131	37,768	-	-	-	4,217,899
Student transportation	3,196,290	71,655	-	-	-	3,267,945
Other instructional	-	-	-	-	-	-
Community services	37,933	303,962	-	-	-	341,895
Building acquisition and construction	-	-	6,715,882	-	-	6,715,882
Debt service	394,036	-	-	3,863,353	-	4,257,389
<b>Total expenditures</b>	<b>36,683,285</b>	<b>5,648,750</b>	<b>6,715,882</b>	<b>3,863,353</b>	<b>-</b>	<b>52,911,270</b>
Excess (deficit) of revenues over (under) expenditures	(2,065,605)	(98,038)	(6,648,327)	(2,990,764)	4,359,922	(7,442,812)
<b>Other financing sources (uses)</b>						
Proceeds from sale of fixed assets	77,857	-	-	-	-	77,857
Proceeds from bonds	-	-	15,500,000	10,040,000	-	25,540,000
Deposits with escrow agents	-	-	-	(9,867,357)	-	(9,867,357)
Costs of debt	-	-	-	(172,643)	-	(172,643)
Proceeds from capital leases	629,706	-	-	-	-	629,706
Transfers in	1,475,184	225,423	-	3,589,029	-	5,289,636
Transfers out	(137,271)	(127,385)	(607,139)	-	(4,333,422)	(5,205,217)
<b>Total other financing sources (uses)</b>	<b>2,045,476</b>	<b>98,038</b>	<b>14,892,861</b>	<b>3,589,029</b>	<b>(4,333,422)</b>	<b>16,291,982</b>
<b>Net change in fund balance</b>	<b>(20,129)</b>	<b>-</b>	<b>8,244,534</b>	<b>598,265</b>	<b>26,500</b>	<b>8,849,170</b>
Fund balance as of June 30, 2014	7,839,078	-	2	1,661,547	28,102	9,528,729
<b>Fund balance as of June 30, 2015</b>	<b>\$ 7,818,949</b>	<b>\$ -</b>	<b>\$ 8,244,536</b>	<b>\$ 2,259,812</b>	<b>\$ 54,602</b>	<b>\$ 18,377,899</b>

## MONTGOMERY COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2015

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Net change in total fund balances - governmental funds	\$ 8,849,170
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	4,182,392
Amortization of deferred outflows or resources is not recognized in the governmental fund financial statements but is a component of interest in the Statement of Activities.	49,264
Bond, capital lease and other debt payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the Statement of Net Position.	2,698,684
Bond, capital lease proceeds, and net debt refundings are recognized as revenue in the governmental fund financial statements but are increases in liabilities in the Statement of Net Position.	(16,604,930)
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the Statement of Activities.	(172,793)
The difference in calculated pension expense and contributions (deferred outflow )is recognized on the Statement of Activities but not in the fund statements.	92,027
Proceeds from the sale of assets are recognized as revenue in the governmental funds but are recorded as gains or losses in the Statement of Activity.	<u>(31,763)</u>
Change in net position - governmental activities	<u>\$ (937,949)</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION -  
PROPRIETARY FUNDS

June 30, 2015

	Food Service Fund	Child Care and Camp Funds	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 764,039	\$ 121,071	\$ 885,110
Accounts receivable	15,320	-	15,320
Inventory	57,724	-	57,724
Total current assets	837,083	121,071	958,154
<b>Noncurrent assets</b>			
Capital assets	3,315,746	-	3,315,746
Less accumulated depreciation	(1,963,201)	-	(1,963,201)
Total noncurrent assets	1,352,545	-	1,352,545
<b>Total assets</b>	2,189,628	121,071	2,310,699
<b>Deferred outflow of resources</b>			
Deferred outflow of contributions	119,693	48,912	168,605
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	112	-	112
<b>Noncurrent liabilities</b>			
Net pension liability	938,022	383,322	1,321,344
<b>Total liabilities</b>	938,134	383,322	1,321,456
<b>Deferred inflow of resources</b>			
Deferred inflows related to pension expense	104,598	42,744	147,342
<b>NET POSITION</b>			
Net investment in capital assets	1,352,545	-	1,352,545
Restricted for:			
Other	(85,956)	(256,083)	(342,039)
Unrestricted	-	-	-
<b>Total net position</b>	\$ 1,266,589	\$ (256,083)	\$ 1,010,506

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
 PROPRIETARY FUNDS  
 Year ended June 30, 2015

	Food Service Fund	Child Care and Camp Funds	Total
<b>Operating revenues</b>			
Lunchroom sales	\$ 737,790	\$ -	\$ 737,790
Other	3,579	349,950	353,529
Total operating revenues	741,369	349,950	1,091,319
<b>Operating expenses</b>			
Salaries and wages	724,572	296,112	1,020,684
Employee benefits	388,136	59,157	447,293
Pension expense	-	-	-
Materials and supplies	1,527,915	136,929	1,664,844
Other	-	-	-
Depreciation	179,101	200	179,301
Total operating expenses	2,819,724	492,398	3,312,122
Operating income/(loss)	(2,078,355)	(142,448)	(2,220,803)
<b>Nonoperating revenues</b>			
Federal grants	1,948,915	40,803	1,989,718
State grants	256,670	95,141	351,811
Earnings on investments	1,971	-	1,971
Donated commodities	153,429	-	153,429
Total nonoperating revenues/(expenses)	2,360,985	135,944	2,496,929
Income before contributions			
Transfers and special items	282,630	(6,504)	276,126
Transfers in (out)	(114,419)	30,000	(84,419)
<b>Change in net position</b>	168,211	23,496	191,707
Net position as of June 30, 2014 (restated)	1,098,378	(279,579)	818,799
<b>Net position as of June 30, 2015</b>	\$ 1,266,589	\$ (256,083)	\$ 1,010,506

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS

Year ended June 30, 2015

	Food Service Fund	After School Child Care Fund	Total
<b>Cash flows from operating activities</b>			
Cash received from:			
Lunchroom sales	\$ 737,790	\$ -	\$ 737,790
Other activities	3,579	350,326	353,905
Cash paid to/for:			
Employees	(1,125,909)	(360,664)	(1,486,573)
Supplies	(1,374,374)	(137,987)	(1,512,361)
Net cash used in operating activities	(1,758,914)	(148,325)	(1,907,239)
<b>Cash flows from non-capital financing activities</b>			
Grants received	2,247,649	135,944	2,383,593
Transfer from (to) general fund	(114,419)	30,000	(84,419)
Net cash used in non-capital financing activities	2,133,230	165,944	2,299,174
<b>Cash flows from investing activities</b>			
Purchase of fixed assets	(161,428)	-	(161,428)
Investment income	1,971	-	1,971
Net cash used in capital and related activities	(159,457)	-	(159,457)
Net increase in cash and cash equivalents	214,859	17,619	232,478
Cash and cash equivalents as of June 30, 2014	549,180	103,452	652,632
<b>Cash and cash equivalents as of June 30, 2015</b>	<b>\$ 764,039</b>	<b>\$ 121,071</b>	<b>\$ 885,110</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income/ (loss)	\$ (2,078,355)	\$ (142,448)	\$ (2,220,803)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase)/decrease in accounts receivable	-	376	376
Increase/(decrease) in accounts payable	112	(1,058)	(946)
Net change in pension expense	(13,201)		(13,201)
Donated commodities	153,429	(5,395)	148,034
Depreciation	179,101	200	179,301
<b>Net cash used in operating activities</b>	<b>\$ (1,758,914)</b>	<b>\$ (148,325)</b>	<b>\$ (1,907,239)</b>
<b>Schedule of non-cash transactions:</b>			
Depreciation	\$ 179,101	\$ 200	\$ 179,301
Donated commodities	153,429	-	153,429
<b>Total non-cash transactions</b>	<b>\$ 332,530</b>	<b>\$ 200</b>	<b>\$ 332,730</b>



MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
June 30, 2015

	Agency Funds	Private Purpose Trust Funds	Total Fiduciary Funds
<b>ASSETS</b>			
Cash	155,798	246,587	402,385
Investments	-	42,244	42,244
Accounts receivable	-	808	808
<b>Total assets</b>	<u>155,798</u>	<u>289,639</u>	<u>445,437</u>
<b>LIABILITIES</b>			
Accounts payable	-	1,240	1,240
Due to student groups	<u>155,798</u>	<u>-</u>	<u>155,798</u>
<b>Total liabilities</b>	<u>155,798</u>	<u>1,240</u>	<u>157,038</u>
<b>Total net position</b>	<u>-</u>	<u>288,399</u>	<u>288,399</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS**

**Year ended June 30, 2015**

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Private Purpose  
Trust  
Funds

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**Additions**

Trust activities	\$ 320,081
Earnings on investments	99
<b>Total additions</b>	<u>320,180</u>

**Deductions**

Benefits paid	<u>203,384</u>
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Change in net position	116,796
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<b>Net position, June 30, 2014</b>	<u>171,603</u>
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<b>Total net position</b>	<u><u>\$ 288,399</u></u>
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## **1. REPORTING ENTITY**

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

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Montgomery County Board of Education. The basic 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Montgomery County School District Finance Corporation – In a prior year, the Montgomery County Board of Education resolved to authorize the establishment of the Montgomery County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

**Government-wide Financial Statements** - The statement of net position and the statement of revenues, expenses, and changes in net position display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

### **I. Government Fund Types**

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

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

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### **I. Government Fund Types - continued**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a Major Fund of the District.

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

### **II. Proprietary Fund Types (Enterprise Funds)**

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

The Child Care and Camp Fund accounts for the funds raised at schools providing after school care for children.

The District applies all GASB pronouncements to proprietary funds 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.

### **III. Fiduciary Fund Type (Agency Funds)**

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

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

### **Basis of Accounting**

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

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

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

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

### Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.489 per \$100 valuation for real property, \$.491 per \$100 valuation for business personal property and \$.466 per \$100 valuation for motor vehicles.

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

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### Prepaid Assets

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

### 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. 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, except land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

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

### Interfund Receivables and Payables

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.

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

### Budgetary Process

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

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

### Cash and Cash Equivalents

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

### Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

### Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school Food Service Fund inventory consists of food, supplies and U.S. Government commodities.

The Food Service Fund inventory is stated at cost and uses the specific identification method; the General Fund inventory is stated at cost and uses the first-in, first-out method.



## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

Fund balances are separated into five categories, as required by GASB 54, as follows:

**Nonspendable** fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

**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.

**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.

**Assigned** fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

**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, then unassigned funds.

### Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2015, in the governmental funds balance sheet.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, 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.

### Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and Teachers Retirement system of the State of Kentucky (KTRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **3. 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. As of June 30, 2015, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2015 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Traditional Bank	\$ 19,628,306	\$ 17,429,194
BNY Mellon	<u>2,259,811</u>	<u>2,259,811</u>
	<u>\$ 21,888,117</u>	<u>\$ 19,689,005</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 18,648,097
Proprietary funds	885,110
Agency funds	<u>155,798</u>
	<u>\$ 19,689,005</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

Special Revenue Funds  
SEEK Capital Outlay Fund  
Facility Support Program (FSPK) Fund  
School Construction Fund  
School Food Service Fund  
Agency Funds

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

**4. INVESTMENTS**

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2015, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

**5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	<b>June 30, 2014</b>			<b>June 30, 2015</b>
	<b>Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b>
<b>Governmental Activities</b>				
Land & land improvements	\$ 8,157,540	\$ -	\$ -	\$ 8,157,540
Buildings	84,281,421	-	-	84,281,421
Technology equipment	3,049,189	-	139,484	2,909,705
Vehicles	5,057,691	649,496	493,986	5,213,201
Infrastructure	136,126	-	-	136,126
General equipment	3,533,910	-	1,500	3,532,410
Construction work in progress	607,140	6,412,142	-	7,019,282
Total historical cost	104,823,017	7,061,638	634,970	111,249,685
Less accumulated depreciation	37,380,507	2,879,245	525,350	39,734,402
Governmental capital assets, net	<u>\$ 67,442,510</u>	<u>\$ 4,182,393</u>	<u>\$ 109,620</u>	<u>\$ 71,515,283</u>
<b>Business-type Activities</b>				
Buildings	\$ 1,674,234	\$ -	\$ -	\$ 1,674,234
Technology equipment	26,310	-	1,167	25,143
Vehicles	45,252	-	-	45,252
General equipment	1,412,189	161,428	2,500	1,571,117
Total historical cost	3,157,985	161,428	3,667	3,315,746
Less accumulated depreciation	1,787,567	179,301	3,667	1,963,201
Business-type capital assets, net	<u>\$ 1,370,418</u>	<u>\$ (17,873)</u>	<u>\$ -</u>	<u>\$ 1,352,545</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

**5. CAPITAL ASSETS - CONTINUED**

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$	2,234,265
Student		74,117
Instruction staff		10,726
District administrative		36,600
School administrative		21,204
Business		12,933
Plant operation and maintenance		120,938
Student transportation		368,462
Community services		-
	<u>\$</u>	<u>2,879,245</u>

**6. CAPITAL LEASE PAYABLE**

The District has entered into a capital lease agreement for buses which will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2015:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2014	Debt Issued	Debt Paid	Balance June 30, 2015	Due Within One Year
KISTA:								
2006	March, 2016	3.30% - 4.00%	\$ 215,451	\$ 40,949	\$ -	\$ 20,073	\$ 20,876	\$ 20,876
2006B	March, 2017	3.50% - 3.88%	208,805	64,486	-	23,306	41,180	20,211
2008	March, 2018	3.00% - 3.75%	270,206	109,052	-	28,238	80,814	29,301
2009	March, 2019	2.00% - 3.60%	332,810	166,221	-	33,637	132,584	34,619
2009C	March, 2020	2.00% - 3.60%	274,426	163,639	-	26,922	136,717	27,542
2010	March, 2020	1.00% - 3.30%	80,854	47,934	-	7,959	39,975	7,959
2011	March, 2021	1.00% - 4.00%	81,291	55,874	-	7,833	48,041	7,958
2011B	March, 2021	1.00% - 3.60%	198,548	135,374	-	19,178	116,196	19,178
2012B	March, 2022	2.00% - 2.50%	380,170	294,616	-	36,023	258,593	36,666
2013	March, 2023	2.00% - 2.50%	618,969	550,879	-	68,915	481,964	58,819
2014	March, 2024	2.00% - 3.00%	609,038	609,038	-	65,920	543,118	67,252
2015	March, 2025	1.00% - 2.70%	629,706	-	629,706	-	629,706	68,258
			<u>\$ 3,900,274</u>	<u>\$ 2,238,062</u>	<u>\$ 629,706</u>	<u>\$ 338,004</u>	<u>\$ 2,529,764</u>	<u>\$ 398,639</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

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**6. CAPITAL LEASE PAYABLE**

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2015:

Year	Principal	Interest	Total
2015-16	\$ 398,639	\$ 59,300	\$ 457,939
2016-17	369,362	50,542	419,904
2017-18	341,004	42,028	383,032
2018-19	315,574	33,931	349,505
2019-20	285,857	26,132	311,989
2030-2033	<u>819,328</u>	<u>47,841</u>	<u>867,169</u>
Totals	<u>\$ 2,529,764</u>	<u>\$ 259,774</u>	<u>\$ 2,789,538</u>
Less: amounts representing interest			<u>(259,774)</u>
Net capital lease liability			<u>\$ 2,529,764</u>

**7. LONG-TERM OBLIGATIONS**

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Montgomery County School District Finance Corporation.

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

Issue Date	Proceeds	Rates
2010 QSBC	\$ 12,576,000	5.88%
2011R	\$ 8,260,000	1.70% - 2.90%
2007	\$ 11,900,000	3.625% - 3.875%
1995A	\$ 362,070	3.6% - 5.5%
2008	\$ 1,950,000	3.0% - 3.5%
2010 BAB	\$ 3,655,000	3.40% - 5.75%
2005	\$ 310,000	3.25% - 4.30%
2006	\$ 7,425,000	3.25% - 4.00%
2003	\$ 13,515,000	2.00% - 3.25%
2007	\$ 3,030,000	3.90%
2014R A	\$ 4,390,000	2.00% - 3.25%
2014R B	\$ 5,650,000	1.00% - 3.00%
2014	\$ 15,500,000	3.00% - 3.50%

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

## **7. LONG-TERM OBLIGATIONS - CONTINUED**

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The following table 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 reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2015 for debt service (principal and interest) are as follows:

*See table on next page*

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

**7. LONG-TERM OBLIGATIONS-CONTINUED**

Year	Montgomery County School District		Kentucky School Facility Construction Commission		Federal Rebate OSCB		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015-16	\$ 2,218,049	\$ 1,299,517	\$ 146,951	\$ 29,492	\$ -	\$ 662,172	\$ 2,365,000	\$ 1,991,181
2016-17	2,253,860	1,197,654	126,140	25,866	-	714,317	2,380,000	1,937,837
2017-18	2,300,330	1,146,383	124,670	22,871	-	714,317	2,425,000	1,883,571
2018-19	2,353,449	1,092,094	86,551	19,848	-	714,317	2,440,000	1,826,259
2019-20	2,416,887	1,030,076	48,113	17,446	-	714,317	2,465,000	1,761,839
2020-21	2,480,413	962,145	49,587	15,972	-	714,317	2,530,000	1,692,434
2021-22	2,553,864	890,664	51,136	14,424	-	714,317	2,605,000	1,619,405
2022-23	2,592,232	814,253	52,766	12,791	-	714,317	2,644,998	1,541,361
2023-24	2,645,994	718,565	34,006	11,105	-	714,317	2,680,000	1,443,987
2024-25	2,729,844	633,065	35,156	9,954	-	714,317	2,765,000	1,357,336
2025-26	2,258,654	540,452	36,346	8,764	-	714,317	2,295,000	1,263,532
2026-27	1,977,421	463,144	37,579	7,532	-	714,317	2,015,000	1,184,993
2027-28	14,378,326	398,241	22,674	6,258	-	714,317	14,401,000	1,118,816
2028-29	1,581,621	320,687	23,379	5,553	-	-	1,605,000	326,240
2029-30	1,635,863	269,685	24,139	4,796	-	-	1,660,002	274,481
2030-31	1,690,050	215,186	24,950	3,982	-	-	1,715,000	219,168
2031-32	1,264,193	165,643	25,807	3,126	-	-	1,290,000	168,769
2032-33	1,313,290	121,327	26,710	2,223	-	-	1,340,000	123,550
2033-34	1,377,339	74,241	27,661	1,271	-	-	1,405,000	75,512
2034-35	1,432,506	268,303	22,494	394	-	-	1,455,000	268,697
	<u>\$ 53,454,185</u>	<u>\$ 12,621,325</u>	<u>\$ 1,026,815</u>	<u>\$ 223,667</u>	<u>\$ -</u>	<u>\$ 9,233,973</u>	<u>\$ 54,481,000</u>	<u>\$ 22,078,966</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2015 is as follows:

See table on next page



**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

**7. LONG-TERM OBLIGATIONS-CONTINUED**

School Building Revenue Bonds	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
2010 QSBC	\$ 12,576,000	\$ -	\$ -	\$ 12,576,000
2011R	7,920,000	-	140,000	7,780,000
2007	2,210,000	-	80,000	2,130,000
1995A	70,000	-	40,000	30,000
2008	1,485,000	-	355,000	1,130,000
2010 BAB	4,230,000		4,230,000	-
2005	5,840,000		5,840,000	-
2006	3,075,000	-	165,000	2,910,000
2003	730,000	-	730,000	-
2007	2,600,000	-	80,000	2,520,000
2014R A	-	4,390,000	115,000	4,275,000
2014R B	-	5,650,000	20,000	5,630,000
2014	-	15,500,000		15,500,000
KSBIT Novation	606,224	4,630	-	610,854
Accrued sick leave	366,754	-	-	366,754
	<u>\$ 41,708,978</u>	<u>\$ 25,544,630</u>	<u>\$ 11,795,000</u>	<u>\$ 55,458,608</u>

School Building Refunding Revenue Bonds 2014A

In September, 2014 the Montgomery County School District Finance Corporation issued \$4,390,000 in School Building Revenue Bonds with interest rates ranging from 2.0% to 3.25% over the life of the bonds. The net proceeds were used to pay off the 2010 Build America Bonds Issue, resulting in gross savings of \$162,153 over the remaining life of the bonds.

School Building Refunding Revenue Bonds 2014B

In September, 2014 the Montgomery County School District Finance Corporation issued \$5,650,000 in School Building Revenue Bonds with interest rates ranging from 1.0% to 3.0% over the life of the bonds. The net proceeds were used to pay off the 2005 School Building Revenue Bonds Issue, resulting in gross savings of \$423,128 over the remaining life of the bonds.

School Building Revenue Bonds Series 2014

In August, 2014 the Montgomery County School District Finance Corporation issued \$15,500,000 in School Building Revenue Bonds with interest rates ranging from 3.0% to 3.50% over the life of the bonds. The net proceeds were used for the McNabb Middle School Renovation and Addition Project. The principal and interest payments are scheduled every first of May and September until 2035, with some assistance from SFCC.

**8. RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

## 8. RETIREMENT PLANS - CONTINUED

### General information about the County Employees Retirement System Non-Hazardous (CERS)

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Contributions*—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

*Funding Policy* - Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 18.63% of the employee's total compensation subject to contribution.

## **8. RETIREMENT PLANS - CONTINUED**

### **General information about the Teachers' Retirement System of the State of Kentucky (KTRS)**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the

Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

*Contributions*—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

**8. RETIREMENT PLANS – CONTINUED**

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**Medical Insurance Plan**

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

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

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$	7,936,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>132,528,897</u>
	\$	<u><u>140,464,897</u></u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**8. RETIREMENT PLANS - CONTINUED**

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.244601%.

For the year ended June 30, 2015, the District recognized pension expense of \$902,021 related to CERS and \$6,494,186 related to KTRS. The District also recognized revenue of \$6,494,186 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	886,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>1,012,644</u>	<u>-</u>
Total	<u><u>\$ 1,012,644</u></u>	<u><u>\$ 886,000</u></u>

The \$1,012,644 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year Ended June 30</u>
2016	\$ 177,200
2017	177,200
2018	177,200
2019	177,200
2020	177,200

*Actuarial assumptions*—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**8. RETIREMENT PLANS - CONTINUED**

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

8. RETIREMENT PLANS - CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 10,442,954	\$ 7,936,000	\$ 5,720,630
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

## **8. RETIREMENT PLANS - CONTINUED**

*Pension plan fiduciary net position*—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2015, 2014 and 2013 was \$3,290,952, \$3,630,311, and \$2,996,334, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2015, 2014, and 2013 were \$1,295,172, \$1,488,102, and \$1,399,902, respectively. Per KTRS, all contributions made by the District are for health insurance and should not be considered contributions towards retirement. The District met their contribution requirements.

## **9. OPERATING LEASES**

The District entered into an operating lease with Summit Funding Group, Inc. to provide 3,178 Hewlett-Packard Chromebooks to the District for a three-year period beginning on October 31, 2014, with annual required payments of \$309,013, 360,477, and \$334,745. The lease did not meet the criteria of a capital lease. The District also has various other office equipment under lease for a nominal annual amount.

## **10. CONTINGENCIES**

*Grants* - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2015 may be impaired. 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.

## **11. LITIGATION**

The District is subject to legal actions in various states 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.

## **12. CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES**

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$6,601,302 reduction in beginning net position on the Statement of Activities and an increase of \$1,060,021 of deferred outflows of resources – District contributions subsequent to the



**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2015

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measurement date. (The District also had a prior period adjustment to beginning net position on the Statement of Activities which is detailed in Note 20 – Prior Period Adjustment.)

**13. RISK MANAGEMENT**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

**14. DEFICIT FUND BALANCES**

The District had one fund with a deficit balance due to the recognition of the net pension liability. There were no other funds with deficit balances at June 30, 2015. However, there may be funds with deficit operating balances.

**15. COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. There were no instances of noncompliance noted.

**16. TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 107,271.00
Operating	Construction	General	Reversal of Prior Year	\$ 607,140.00
Operating	General	Childcare	Operations	\$ 30,000.00
Operating	Special Revenue	Special Revenue	Project Reclass	\$ 118,152.00
Operating	Special Revenue	General	Indirect Costs	\$ 9,233.00
Operating	Capital Outlay	General	COFT	\$ 433,137.00
Operating	Building	General	COFT	\$ 311,256.00
Operating	Building	Debt Service	Debt Service	\$ 3,589,029.00
Operating	Food Service	General	Indirect Costs	\$ 114,419.00

**17. INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2015, there were no interfund balances outstanding that are reflected in the financial statements.

**18. ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

# **18. ON-BEHALF PAYMENTS (Continued)**

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

Retirement contributions to the Teachers'		
Retirement System of Kentucky	\$	2,423,447
Health and Life insurance		4,495,634
Technology		79,752
Debt Service		167,519
	\$	<u>7,166,352</u>

# **19. FUND BALANCE DESIGNATIONS**

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Building	\$ 54,602	SFCC Requirement
Construction	\$ 8,244,536	Future Construction
Debt Service	\$ 2,259,812	Payment of Debt

The following funds had committed fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 433,460	Sick Leave Retirement Benefit and Other

# **20. PRIOR PERIOD ADJUSTMENTS**

The District had a prior period adjustment to net position and fund balance due to over reporting of debt service escrow amounts as of June 30, 2014 to reclassify escrow by \$47,368 . The District also had a prior period adjustment resulting in a reduction to the net position in the amount of \$260,310 to recognize unrecognized KSBIT liability, which did not affect the fund balance.

# **21. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MONTGOMERY COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
Year ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Taxes:				
Property	\$ 4,155,000	\$ 4,155,000	\$ 4,291,460	\$ 136,460
Motor vehicle	620,000	620,000	679,077	59,077
Utility	2,000,000	2,000,000	2,152,389	152,389
Other	40,000	40,000	27,741	(12,259)
Earnings on investments	50,000	50,000	64,621	14,621
Student activities	91,200	167,747	203,687	35,940
Other local	150,000	150,000	192,742	42,742
Intergovernmental - State	26,655,758	26,655,758	26,875,628	219,870
Intergovernmental - Federal	90,000	90,000	130,335	40,335
Total revenues	<u>33,851,958</u>	<u>33,928,505</u>	<u>34,617,680</u>	<u>689,175</u>
<b>Expenditures</b>				
Current:				
Instruction	21,492,467	21,641,369	21,014,630	626,739
Student	1,891,791	1,959,144	2,156,424	(197,280)
Instructional support	1,252,010	1,279,478	1,028,054	251,424
District administration	1,544,820	1,542,670	1,848,821	(306,151)
School administration	1,496,243	1,506,828	1,409,926	96,902
Business operations	1,475,475	1,475,475	1,417,040	58,435
Plant operations and maintenance	3,772,043	3,918,051	4,180,131	(262,080)
Student transportation	2,811,462	2,578,987	3,196,290	(617,303)
Community service	38,760	38,760	37,933	827
Debt service	400,000	400,000	394,036	5,964
Contingency	5,926,887	6,142,313	-	6,142,313
Total expenditures	<u>42,101,958</u>	<u>42,483,075</u>	<u>36,683,285</u>	<u>5,799,790</u>
Excess (deficit) of revenues over (under) expenditures	(8,250,000)	(8,554,570)	(2,065,605)	6,488,965
<b>Other financing sources (uses)</b>				
Proceeds from sale of equipment	5,000	5,000	77,857	72,857
Proceeds from capital leases	-	-	629,706	629,706
Transfers in	510,000	814,569	1,475,184	660,615
Transfers out	(65,000)	(65,000)	(137,271)	(72,271)
Total other financing sources (uses)	<u>450,000</u>	<u>754,569</u>	<u>2,045,476</u>	<u>1,290,907</u>
<b>Net change in fund balance</b>	<u>(7,800,000)</u>	<u>(7,800,001)</u>	<u>(20,129)</u>	<u>7,779,872</u>
Fund balance as of June 30, 2014	<u>7,839,078</u>	<u>7,839,078</u>	<u>7,839,078</u>	-
<b>Fund balance as of June 30, 2015</b>	<u>\$ 39,078</u>	<u>\$ 39,077</u>	<u>\$ 7,818,949</u>	<u>\$ 7,779,872</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
Year ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources:				
Earnings on investments	\$ -	\$ 261	\$ 261	\$ -
Student activities	3,285	69,473	68,242	(1,231)
Other local	67,083	76,156	75,419	(737)
Intergovernmental - State	1,433,873	1,601,864	1,621,594	19,730
Intergovernmental - Federal	3,249,379	3,616,818	3,785,196	168,378
<b>Total revenues</b>	<u>4,753,620</u>	<u>5,364,572</u>	<u>5,550,712</u>	<u>186,140</u>
<b>Expenditures</b>				
Current:				
Instruction	3,329,748	3,489,106	3,675,749	(186,643)
Student support services	343,494	261,787	508,516	(246,729)
Instructional support	729,847	1,190,806	1,017,607	173,199
District administration	4,066	4,155	1,566	2,589
Business support services	33,700	35,049	31,927	3,122
Plant operations & maintenance	72,947	84,987	37,768	47,219
Student transportation	4,322	72,733	71,655	1,078
Community service	297,586	321,571	303,962	17,609
<b>Total expenditures</b>	<u>4,815,710</u>	<u>5,460,194</u>	<u>5,648,750</u>	<u>(188,556)</u>
Deficit of revenues under expenditures	<u>(62,090)</u>	<u>(95,622)</u>	<u>(98,038)</u>	<u>2,416</u>
<b>Other financing sources</b>				
Operating transfers in	65,000	225,423	225,423	-
Operating transfers out	2,974	(129,801)	(127,385)	2,416
Total other financing sources	<u>67,974</u>	<u>95,622</u>	<u>98,038</u>	<u>2,416</u>
<b>Net change in fund balance</b>	<u>5,884</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance as of June 30, 2015</b>	<u>\$ 5,884</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## **MONTGOMERY COUNTY SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

#### **BUDGET AND ACTUAL - GENERAL FUND**

**Year ended June 30, 2015**

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The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget.

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**COUNTY EMPLOYEES RETIREMENT SYSTEM**  
Year Ended June 30, 2015

	District's proportion of net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.24%	\$ 7,936,000	\$ 5,692,338	139.42%	66.80%

\* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MONTGOMERY COUNTY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS

COUNTY EMPLOYEES RETIREMENT SYSTEM  
Year ended June 30, 2015

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2015	\$1,012,370	\$1,012,370	\$ -	\$5,780,994	17.51%
2014	\$1,060,021	\$1,060,021	\$ -	\$5,692,338	18.62%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.



**MONTGOMERY COUNTY SCHOOL DISTRICT**

**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
KENTUCKY TEACHERS' RETIREMENT SYSTEM**

June 30, 2015

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	<u>State's proportion of net pension liability (asset)</u>	<u>State's proportionate share of the net pension liability (asset)</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<b>2015</b>	100%	\$ 132,528,897	45.59%

\* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.
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**MONTGOMERY COUNTY SCHOOL DISTRICT**

**SCHEDULE OF STATE CONTRIBUTIONS  
KENTUCKY TEACHERS' RETIREMENT SYSTEM**

June 30, 2015

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	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2015	\$ 3,123,085	\$ 3,123,085	\$ -

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.
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**MONTGOMERY COUNTY SCHOOL DISTRICT**

**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**

**June 30, 2015**

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	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Total Non-major Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 54,602	\$ 54,602
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 54,602</u>	<u>\$ 54,602</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ -	\$ -	\$ -
Fund Balances:			
Restricted	<u>-</u>	<u>54,602</u>	<u>54,602</u>
<b>Total liabilities fund balances</b>	<u>\$ -</u>	<u>\$ 54,602</u>	<u>\$ 54,602</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**

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

**Year ended June 30, 2015**

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Total Non-major Governmental Funds
<b>Revenues</b>			
Taxes			
Property	\$ -	\$ 2,226,117	\$ 2,226,117
Intergovernmental - State	426,135	1,707,670	2,133,805
Total revenues	426,135	3,933,787	4,359,922
<b>Expenditures</b>			
Debt service	-	-	-
Total expenditures	-	-	-
<b>Other financing sources (uses)</b>			
Transfers out	(433,137)	(3,900,285)	(4,333,422)
Total other financing sources (uses)	(433,137)	(3,900,285)	(4,333,422)
<b>Net change in fund balance</b>	(7,002)	33,502	26,500
Fund balance as of June 30, 2014	7,002	21,100	28,102
<b>Fund balance as of June 30, 2015</b>	<u>\$ -</u>	<u>\$ 54,602</u>	<u>\$ 54,602</u>

**MONTGOMERY COUNTY BOARD OF EDUCATION**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES**

**AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**

Year Ended June 30, 2015

<u>School Activity Fund</u>	<u>Cash and Equivalents June 30, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Balances June 30, 2015</u>
Mt Sterling Elementary School	\$ 20,533	\$ 29,673	\$ 32,461	\$ 17,745	\$ -	\$ -	\$ 17,745
Mt. Sterling Elementary Charitable	2,706	4,435	4,287	2,854	-	-	2,854
Mapleton Elementary School	35,595	52,711	61,181	27,125	-	-	27,125
Montgomery Co Intermediate Schc	11,051	28,948	28,679	11,320	-	-	11,320
McNabb Middle School	37,018	47,675	60,217	24,476	-	-	24,476
Camargo Elementary School	20,746	29,892	34,416	16,222	-	-	16,222
Camargo Elementary Charitable G	804	590	862	532	-	-	532
Totals	<u>\$ 128,453</u>	<u>\$ 193,924</u>	<u>\$ 222,103</u>	<u>\$ 100,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,274</u>

**MONTGOMERY COUNTY BOARD OF EDUCATION**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -**  
**MONTGOMERY CO HIGH SCHOOL ACTIVITY FUND**  
Year ended June 30, 2015

	Balances June 30, 2014	Receipts	Disbursements	Transfers in/(out)	Cash and cash equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Musical	\$ 4,482	\$ 18,146	\$ 20,577	\$ -	\$ 2,051	\$ -	\$ -	\$ 2,051
Student Scholarship Fund	-	614	800	186	-	-	-	-
Art	2,955	2,574	3,711	30	1,848	-	-	1,848
Art Club	505	-	328	-	177	-	-	177
Athletics	6,072	17,774	23,137	-	709	-	-	709
Bass Fishing	-	3,668	3,628	-	40	-	-	40
Band	208	2,130	2,968	23	(607)	-	-	(607)
Beta	792	2,050	2,754	-	88	-	-	88
Black & Hispanic Achiever	-	56	-	-	56	-	-	56
Chess	199	1,126	1,284	-	41	-	-	41
Co-Ed-Y	1,070	25,825	25,601	-	1,294	-	-	1,294
Decal	89	-	-	-	89	-	-	89
Social Fund	-	515	662	245	98	-	-	98
FCA	171	-	-	-	171	-	-	171
FFA	962	725	1,078	-	609	-	-	609
FCCLA	54	935	415	-	574	-	-	574
French	-	250	250	-	-	-	-	-
General	3,179	201,000	203,297	(132)	750	-	-	750
Kids Count	5,338	722	800	(30)	5,230	-	-	5,230
Mock Trial	2,733	-	1,821	-	912	-	-	912
Family & Consumer Science	1,240	1,912	817	-	2,335	-	-	2,335
Horticulture	485	832	-	-	1,317	-	-	1,317
English Dept.	-	835	626	-	209	-	-	209
mC2 Filed trip	-	976	843	-	133	-	-	133
Creative Writing FT	-	531	487	-	44	-	-	44
JROTC	6,908	4,301	4,338	-	6,871	-	-	6,871
Operation Dustin Gross	2,427	-	-	-	2,427	-	-	2,427
Guidance	1,580	23,006	21,477	-	3,109	-	-	3,109
Key Club	13	-	-	-	13	-	-	13
STLP	727	-	-	-	727	-	-	727

**MONTGOMERY COUNTY BOARD OF EDUCATION**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -**  
**MONTGOMERY CO HIGH SCHOOL ACTIVITY FUND**  
Year ended June 30, 2015

	Balances June 30, 2014	Receipts	Disbursements	Transfers in/(out)	Cash and cash equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Library	\$ 1,622	\$ 226	\$ 947	\$ 11	\$ 912	\$ -	\$ -	\$ 912
Student Vending	5,128	1,835	3,692	(23)	3,248	-	-	3,248
Faculty Vending	1,328	3,426	3,271	(431)	1,052	-	-	1,052
Newspaper	771	265	479	-	557	-	-	557
Orchestra	91	1,869	1,942	-	18	-	-	18
Class of 2017	323	1,394	-	-	1,717	-	-	1,717
Class of 2018	-	3,157	-	-	3,157	-	-	3,157
Spanish	494	-	-	-	494	-	-	494
Student Council	365	796	474	-	687	-	-	687
Vocal Music	1,587	975	1,518	-	1,044	-	-	1,044
Vocational Agriculture	2,926	-	-	-	2,926	-	-	2,926
Bobby J. Whitaker-Scholar	4	-	-	-	4	-	-	4
Class of 2015	5,576	2,910	7,593	-	893	-	-	893
Class of 2012	69	-	-	-	69	-	-	69
Yearbook	6,749	6	4,660	-	2,095	-	-	2,095
S.E.R.V.E.	-	20	-	-	20	-	-	20
Class of 2013	1,669	-	-	-	1,669	-	-	1,669
Special Ed	-	35	156	121	-	-	-	-
MCHS Book Club	140	1,406	1,238	-	308	-	-	308
Class of 2016	2,045	1,140	100	-	3,085	-	-	3,085
Engineering Club	220	74	40	-	254	-	-	254
Total accounts	<u>\$ 73,296</u>	<u>\$ 330,037</u>	<u>\$ 347,809</u>	<u>\$ -</u>	<u>\$ 55,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,524</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education</b>			
Passed through the Kentucky Department of Education:			
<i>Title I, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	3210002 15	\$ 1,394,567
Title I Grants to Local Educational Agencies	84.010	3210002 14	96,073
Title I Grants to Local Educational Agencies	84.010	3100002 14	347,273
Title I Grants to Local Educational Agencies	84.010	3100102 14	<u>65,666</u>
<i>Total Title I, Part A Cluster</i>			<u>1,903,579</u>
<i>Special Education Cluster (IDEA)</i>			
Special Education--Grants to States	84.027	3810002 15	642,822
Special Education--Grants to States	84.027	3810002 14	259,484
Special Education--Grants to States	84.027	3810002 13	<u>208</u>
			<u>902,514</u>
Special Education--Preschool Grants	84.173	3800002 15	37,472
<i>Total Special Education Cluster</i>			<u>939,986</u>
Migrant Education - State Grant Programs	84.011	3110002 15	148,350
Migrant Education - State Grant Programs	84.011	3110002 14	82,780
Migrant Education - State Grant Programs	84.011	3110002 13	<u>8,221</u>
			<u>239,351</u>
Career and Technical Education--Basic Grants to States	84.048	4621032 15	37,835
Career and Technical Education--Basic Grants to States	84.048	4621132 14	<u>1,483</u>
			<u>39,318</u>
Rural Education	84.358	3140002 15	92,249
Rural Education	84.358	3140002 14	<u>2,991</u>
			<u>95,240</u>
English Language Acquisition State Grants	84.365	330002 15	3,189
Fund for the Improvement of Education	84.215E	5324	241,498
Improving Teacher Quality State Grants	84.367	3230002 15	160,316
Improving Teacher Quality State Grants	84.367	3230002 14	<u>48,364</u>
			<u>208,680</u>
Race to the Top	84.413	4521	26,524
Passed through the Workforce Development Cabinet			
Adult Education - Basic Grants to States	84.002	371A	<u>18,873</u>
<b>Total U.S. Department of Education</b>			<u><u>3,716,238</u></u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>			
Passed through the Kentucky Department of Education			
<i>Child Nutrition Cluster</i>			
National School Lunch Program	10.555	7750002 15	1,108,871
National School Lunch Program	10.555	7750002 14	304,443
School Breakfast Program	10.553	7760005 15	383,833
School Breakfast Program	10.553	7760005 14	104,751
Summer Food Services Program for Children	10.559	7760005 14	47,018
National School Lunch Program	10.555	77500002 15	153,429
<i>Total Child Nutrition Cluster</i>			<u>2,102,345</u>
Child and Adult Care Food Program	10.558	7790021 15	<u>7,628</u>
<b>Total U.S. Department of Agriculture</b>			<u>2,109,973</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed through the Department of Community Based Services			
Child Care Mandatory and Matching Funds of the Child Care and Developm	93.596	520.4500	<u>33,174</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>33,174</u>
<b><u>U.S. Department of Defense</u></b>			
Direct Program			
ROTC	12.000	504A	<u>68,957</u>
<b>Total U.S. Department of Defense</b>			<u>68,957</u>
<b>Total cash expenditures</b>			<u>\$ 5,928,342</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2015

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**1. BASIS OF PRESENTATION**

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

**2. IN-KIND COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2015 is \$153,429.

**3. CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Montgomery County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

**Internal Control over Financial Reporting**

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

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

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

### Compliance and Other Matters

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

We noted other matters involving the internal control over financial reporting that we have reported to the management of Montgomery County School District in a separate letter dated November 13, 2015.

### 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.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 13, 2015





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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

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

We have audited Montgomery County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Montgomery County School District's major federal programs for the year ended June 30, 2015. The Montgomery County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

In our opinion, Montgomery County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



**Cloyd & Associates, PSC**  
*Certified Public Accountants*

### **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did identify deficiencies in internal control over compliance that we consider to be material weaknesses, which are described in the accompanying schedule of findings and questioned costs. The material weaknesses are identified as 2015-01, 2015-02, and 2015-03.

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.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Montgomery County School District, as of and for the year ended June 30, 2015, and have issued our report thereon dated November 13, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 13, 2015

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2015

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<u>  ✓  </u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>  ✓  </u> None reported
Noncompliance material to financial statement notes	_____	Yes	<u>  ✓  </u> No

**Federal Awards**

Internal control over major programs:			
Material weaknesses identified	<u>  ✓  </u>	Yes	_____ No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>  ✓  </u> None reported
Type of auditors' 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	<u>  ✓  </u> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
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Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Title I Grant to Local Educational Agencies	84.010
Migrant Education State Grant Programs	84.011

Dollar threshold used to distinguish between Type A and Type B program	\$300,000
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Auditee qualified as low risk	_____	Yes	<u>  ✓  </u>	No
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(continued)

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year ended June 30, 2015

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

*Material Weakness in Internal Control*

**2015-01**

Condition:	The District did not approve all extended days as assigned to certain positions during their approval of the 2014-2015 district salary schedule.
Criteria:	The District's Board should annually approve a salary schedule of all positions within the District, to include extra pay and extended days for all positions which have them.
Effects:	The District had no real assurance that salaries were correct in accordance with Board action, which could affect projects' time and effort calculations and spending in federal awards.
Cause:	The District excluded certain positions' extended days from the district salary schedule.
Recommendations:	The District needs to ensure that the district salary schedule is full and comprehensive of all positions in the District as well as all extended days and extra service pay given to the District employees.

**Views of Responsible Official and Planned Corrective Action Plan::**

The salary schedule, approved on May 11, 2015, did not include specific extended days for many positions. The District will annually provide an extended day schedule for all positions for approval by the Board of Education. We will create a salary schedule to recommend to the board. This schedule will be retroactive for the 15-16 school year. Additionally, all salary schedules moving forward will include extended days.

**2015-02**

Condition:	The District hired a Director of Special Projects without proper safeguards and controls in place to meet proper hiring procedures. One individual with the opportunity to do so apparently changed the job description without Board approval in order to ensure the person would be qualified for the position.
Criteria:	The District should hire in accordance with state, federal, and local policy and take action to prevent one person, or a small group, from having the power and authority to take such action.
Effects:	The District's Federal Program Coordinator was hired improperly as stated by the Auditor of Public Accounts of the State of Kentucky, and by the Commissioner of the Kentucky Department of Education, thus jeopardizing additional federal funding.
Cause:	The District did not have proper safeguards and control in place to meet proper hiring procedures.
Recommendations:	The District needs to evaluate hiring procedures and controls, and set forth and adopt safeguards and procedures with the hiring processes of the District to meet legal and proper standards.

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year ended June 30, 2015

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**Section III – Federal Award Findings - continued**

Views of Responsible Official and Planned Corrective Action Plan:

The position in question has since been abolished by the Board of Education. The individual that held the position is no longer employed by the district. For the 15-16 school year the Superintendent recommended a job description for Director of Special Education. Upon approval, this position was posted and a fully qualified and certified individual has been hired.

**2015-03**

- Condition: There was lack of oversight in reporting specific athletic funding to third parties who required the reporting to determine compliance with federal guidelines.
- Criteria: One individual should not prepare a document representing material spending without having it reviewed by another knowledgeable person before it is submitted.
- Effects: The District submitted a statement that appeared to create a situation where it was using booster club funding to be in compliance with Title IX regulations. Also it may have appeared that facilities may have been constructed or renovated without state approval. Such action has the potential to affect other federal funding.
- Cause: There was lack of oversight in the reporting process.
- Recommendations: The District needs to have proper procedures and controls for the creation, review, and submission of regulatory reports and proper support for expenditures claimed on that submission, including independent review of such reports.

Views of Responsible Officials and Planned Corrective Action Plan:

The Title IX report will be reviewed by a team of District staff to ensure there are no errors or typos prior to submission. The person with the position of Deputy Superintendent of Support Operations is over Title IX, Personnel, and Athletics. He is serving on the team preparing the documentation and will review prior to submission.

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year ended June 30, 2015

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**Status of Prior Year Findings**

There were no prior year audit findings

## **MANAGEMENT LETTER COMMENTS**



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**Cloyd & Associates, PSC**  
*Certified Public Accountants*

Members of the Board of Education  
Montgomery County School District  
Mt. Sterling, Kentucky

In planning and performing our audit of the basic financial statements of Montgomery County School District for the year ended June 30, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 13, 2015, on the basic financial statements of Montgomery County School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions 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.

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 13, 2015

**MONTGOMERY COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER COMMENTS**  
June 30, 2015

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**Prior Year Comments – School Activity Funds**

**CAMARGO ELEMENTARY**

1-14

Statement of Condition: Interest earned through the checking account is being recorded as revenue to the Vending-Staff activity fund account.

*This deficiency was not noted in the current year.*

**MAPLETON ELEMENTARY**

2-14

Statement of Condition: Monies spent on staff and faculty (i.e.flowers) paid out of the General Fund activity fund account instead of faculty/staff revenue generating activity fund account.

*This deficiency was not noted in the current year.*

**McNABB MIDDLE SCHOOL**

3-14

Statement of Condition: Monies spent on staff and faculty (i.e.flowers) paid out of the General Fund activity fund account instead of faculty/staff revenue generating activity fund account.

*This deficiency was not noted in the current year.*

4-14

Statement of Condition: Fund Raiser worksheet (F-SA-2B) not being completed for all fundraising events that require one.

*This deficiency was not noted in the current year.*

5-14

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on pencil machine.

*This deficiency was not noted in the current year.*

**MONTGOMERY COUNTY HIGH SCHOOL**

6-14

Statement of Condition: Instances of lack of segregation of duties in the process of ticket sales.

*This deficiency was not noted in the current year.*

7-14

Statement of Condition: Monies spent on staff and faculty (i.e.flowers) paid out of the General Fund activity fund account instead of faculty/staff revenue generating activity fund account.

*This deficiency was not noted in the current year.*

**Current Year Comments –School Activity Funds**

Central Office of the District

1. The District in essence gave “constructive” loans to booster clubs located within the county by purchasing items in lieu of a booster club on a future promise of getting reimbursed by that booster. “

*Response from Management: Beginning July 1, 2015, the District stopped this practice. All past accounts were settled. We have not allowed purchases to be made with the promise of reimbursement from any booster club. Booster groups are required to make purchases directly or donate the money upfront to offset costs, which is allowable under Redbook regulations.*

Montgomery County High School

2. A booster club (MCHS Girls Golf) bank account was using the District's EIN number at a local bank. Redbook allows only one bank account per school unless there is a charitable gaming account. Booster clubs must obtain their own Federal identification number.

*Response from Management: Management has contacted the booster club and will ensure that the bank account will no longer be using the District's Federal ID number.*