

Montgomery County School District
Audited Financial Statements
and Required Supplementary Information
June 30, 2017

**MONTGOMERY COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2017**

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net position	14
Statement of Revenues, Expenditures and Changes In Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Special Revenue Fund	18
Statement of Net Position - Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Fiduciary Net Position - Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	23

**MONTGOMERY COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS - CONTINUED
JUNE 30, 2017**

	<u>Page</u>
Notes to Basic Financial Statements	24-55
Required Supplementary Information:	
Schedule of Proportionate Share of The Net Pension Liability	56
Schedule of Contributions	57
Notes to Required Supplementary Information	58
Supplemental Schedules:	
Combining Balance Sheet – Non-major Governmental Funds	59
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances – Non-major Governmental Funds	60
Combining Statement of Receipts, Disbursements and Fund Balances – School Activity Funds	61
Statement of Receipts, Disbursements and Fund Balances – Montgomery County High School Activity Funds	62
Schedule of Expenditures of Federal Awards	63-64
Notes to Schedule of Expenditures of Federal Awards	65
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66-67
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance	68-69
Schedule of Findings and Questioned Costs	70-71
Schedule of Prior Year Audit Findings	72
Management Letter Comments	73-78

SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. McCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

JUSTIN B. NICHOLS, CPA
SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee of School District Audits
Members of the Board of Education
Montgomery County School District
Mt. Sterling, KY 40353

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District as of June 30, 2017, and the respective changes in financial position and, when applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund 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, schedule of proportionate share of the net pension liability, and schedule of contributions on pages 4-10 and 56-57, respectively, 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. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2017, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY
October 3, 2017

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

As management of the Montgomery County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS/OVERALL DISTRICT HIGHLIGHTS

- The beginning General Fund balance for the District was \$5,822,876. With a decrease of \$1,502,113, the ending balance for FY2017 was \$4,770,763.
- Average Daily Attendance (ADA), is used to calculate base SEEK funding. Our Prior Year ADA was 4,201.942 for funding year 2015-16. Our funding ADA was 4,202.746 for 2016-17. Although the funding ADA was sustained this provided no substantial additional funding for our ever-increasing expenditures.
- The Guaranteed SEEK base was maintained at 3,981 per pupil.
- Please note that kindergarten still receives a 50% ADA reduction for the SEEK calculation (funded at the ½ day level). Also, per the SEEK formula, transportation is only funded at nearly 60%.
- CERS Employer Contribution Rate increased from 17.06% for the 2015-16 year to 18.68% for the 2016-17 year.
- Medicare contributions increased as of January 1, 2017 due to employee contributions to KTRS and CERS no longer being exempt.
- Fiscal year 2016-17 was the last year of the Chromebook lease.
- A decrease in special education child count resulted in decreased funding.
- The Board passed a 4% increase in property taxes.
- The renovation of McNabb Middle School is near completion.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities).

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds.

Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$23,751,687 as compared to \$24,195,573 in the prior year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

The breakdown of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position can be seen on page 11 in the statement of net position, Governmental Wide Basis.

Net position for the years ending June 30, 2017 and 2016

	<u>2017</u>		<u>2016</u>		<u>Change</u>
Current Assets	\$ 10,299,758	\$	13,305,006	\$	(3,005,248)
Noncurrent Assets	76,596,285		76,584,479		11,806
Total Assets	<u>86,896,043</u>		<u>89,889,485</u>		<u>(2,993,442)</u>
Deferred Outflows of Resources	<u>3,465,435</u>		<u>2,894,755</u>		<u>570,680</u>
Current Liabilities	3,939,389		4,362,406		(423,017)
Noncurrent Liabilities	61,908,208		63,371,520		(1,463,312)
Total Liabilities	<u>65,847,597</u>		<u>67,733,926</u>		<u>(1,886,329)</u>
Deferred Inflows of Resources	<u>179,086</u>		<u>63,953</u>		<u>115,133</u>
Net Position					
Investment in capital assets (net)	24,528,169		21,859,717		2,668,452
Restricted	4,016,827		5,535,739		(1,518,912)
Unrestricted	(4,210,201)		(2,409,096)		(1,801,105)
Total Net Position	<u>\$ 24,334,795</u>	\$	<u>24,986,360</u>	\$	<u>(651,565)</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2017 and 2016, Governmental Wide Basis.

	Summary of Revenue and Expenditures					
	Governmental		Business-type		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Local revenue sources	\$10,254,389	\$9,589,653	\$885,695	\$979,620	\$10,539,914	\$10,569,273
State revenue sources	44,664,297	37,380,764	379,691	258,191	45,644,158	37,638,955
Federal revenue sources	4,770,526	4,685,519	2,291,239	2,253,375	7,061,765	6,938,894
Tuition	77,837	76,674	0	0	77,837	76,674
Gain on sale of assets	9,739	231,580	0	(6,530)	9,739	225,050
Investments	211,386	201,762	6,561	3,056	217,947	204,818
Total Revenue	59,988,174	52,165,952	3,563,186	3,487,712	63,551,360	55,653,664
Expenses:						
Instruction	35,094,282	31,760,344	0	0	35,094,282	31,760,344
Student support services	4,340,214	3,575,243	0	0	4,340,214	3,575,243
Instructional support	3,606,762	3,413,733	0	0	3,606,762	3,413,733
District administration	1,574,157	1,387,160	0	0	1,574,157	1,387,160
School administration	2,509,484	2,020,396	0	0	2,509,484	2,020,396
Business support	2,213,055	1,712,878	0	0	2,213,055	1,712,878
Plant operations	5,102,267	4,282,185	0	0	5,102,267	4,282,185
Student transportation	3,462,088	2,917,089	0	0	3,462,088	2,917,089
Community service	314,839	296,488	0	0	314,839	296,488
Interest on long-term debt	2,348,381	2,086,645	0	0	2,348,381	2,086,645
Day care	0	0	557,614	578,020	557,614	578,020
Food service	0	0	3,079,782	3,013,706	3,079,782	3,013,706
Total Expenses	60,565,529	53,452,161	3,637,396	3,591,726	64,202,925	57,043,887
Transfers	133,469	115,705	(133,469)	(115,705)	0	0
Change in net position	(443,886)	(1,170,504)	(207,679)	(219,719)	(651,565)	(1,390,223)
Beginning net position	24,195,573	25,366,077	790,787	1,010,506	24,986,360	26,376,583
Ending net position	\$23,751,687	\$24,195,573	\$583,108	\$790,787	\$24,334,795	\$24,986,360

Governmental Activities

Instruction comprises 58% of governmental program expenses. Plant Operations expense makes up 8% of government expenses. District and School Administration total 7% of governmental expenses. The remaining expenses for support services, community service activities, transportation and interest account for the final 27% of total governmental expense.

Business-Type Activities

The business-type activities include the food service and day care operations. These programs had total revenues of \$3,563,186 and expenses of \$3,637,396 for fiscal year 2017. Of the revenues, \$886,695 was charges for services, and \$2,670,930 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FUND FINANCIAL ANALYSIS

Comments on Budget Comparisons

General fund budget compared to actual revenue varied from line item to line item with the ending actual revenues being \$1,481,635 more than budget. General fund budget compared to actual expenditures varied from line item to line item with the ending actual expenditures being \$455,833 more than budget. The District's total general fund revenues for the fiscal year ended June 30, 2017, before interfund transfers, was \$36,096,385, an increase of \$717,421 from the total revenues of \$35,378,964 for 2016.

The following table presents a summary of revenue and expense, excluding transfers, for selected funds (including on- behalf payments). Food service and day care amounts are presented on the accrual basis while general and special revenue funds are on the modified accrual basis:

For the Year ending June 30, 2017

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>FOOD SERVICE FUND</u>	<u>DAY CARE FUND</u>
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 4,641,361	\$ 0	\$ 0	\$ 0
Motor vehicle	782,003	0	0	0
Utilities	1,768,606	0	0	0
Earnings on investments	86,081	1,248	6,561	0
Tuition & fees	77,837	0	0	0
Other local revenues	242,901	231,704	0	0
Intergovernmental - state	28,361,248	1,818,775	276,887	102,804
Intergovernmental - federal	136,348	3,461,152	2,284,049	7,190
Gain/(Loss) on asset disposal	0	0	0	0
Lunchroom sales	0	0	512,907	0
Day care revenue	0	0	0	372,788
TOTAL REVENUES	\$ 36,096,385	\$ 5,512,879	\$ 3,080,404	\$ 482,782
EXPENDITURES:				
Instruction:	\$ 21,348,123	\$ 3,661,370	\$ 0	\$ 0
Support Services:				
Student	2,863,479	375,202	0	0
Instructional staff	1,639,887	1,148,832	0	0
District administration	1,364,528	5,946	0	0
School administration	1,765,981	0	0	0
Business	1,612,601	33,477	0	0
Plant operations and maintenance	4,100,982	19,267	0	0
Student transportation	2,704,751	47,938	0	0
Food Service	0	0	3,079,782	0
Day care service	0	0	0	557,614
Community Service	37,459	303,309	0	0
Debt service	472,189	0	0	0
TOTAL EXPENDITURES	\$ 37,909,980	\$ 5,595,341	\$ 3,079,782	\$ 557,614
Excess (Deficit) of Revenues over Expenditures	\$ (1,813,595)	\$ (82,462)	\$ 622	\$ (74,832)

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

For the Year ending June 30, 2016

	GENERAL FUND	SPECIAL REVENUE FUND	FOOD SERVICE FUND	DAY CARE FUND
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 4,178,758	\$ 0	\$ 0	\$ 0
Motor vehicle	706,718	0	0	0
Utilities	1,654,198	0	0	0
Earnings on investments	68,808	417	3,056	0
Tuition & fees	76,674	0	0	0
Other local revenues	146,889	203,261	0	0
Intergovernmental - state	28,411,175	1,641,169	192,764	65,427
Intergovernmental - federal	135,744	3,908,555	2,201,092	52,283
Gain/(Loss) on asset disposal	0	0	(6,530)	0
Lunchroom sales	0	0	620,368	0
Day care revenue	0	0	0	359,252
TOTAL REVENUES	\$ 35,378,964	\$ 5,753,402	\$ 3,010,750	\$ 476,962
EXPENDITURES:				
Instruction:	\$ 22,411,887	\$ 3,618,372	\$ 0	\$ 0
Support Services:				
Student	2,684,181	397,060	0	0
Instructional staff	1,528,185	1,396,276	0	0
District administration	1,392,435	5,424	0	0
School administration	1,702,058	0	0	0
Business	1,447,210	31,372	0	0
Plant operations and maintenance	3,772,041	40,310	0	0
Student transportation	2,693,178	61,210	0	0
Food Service	0	0	3,013,706	0
Day care service	0	0	0	578,020
Community Service	50,093	298,857	0	0
Debt service	457,939	0	0	0
TOTAL EXPENDITURES	\$ 38,139,207	\$ 5,848,881	\$ 3,013,706	\$ 578,020
Excess (Deficit) of Revenues over Expenditures	\$ (2,760,243)	\$ (95,479)	\$ (2,956)	\$ (101,058)

Debt

At June 30, 2017, the School District had \$52,687,618 in bond and capital lease debt outstanding; of this amount \$768,182 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$2,904,215 is due within one year.

Capital Assets

The Board added \$2,842,015 in new assets during the year, primarily for the renovation of McNabb Middle School.

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, i.e. some federal, 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. Significant board actions that impacted finances include; Section 7 allocations, funding all-day Kindergarten and Preschool, funding all athletic and a good portion of extracurricular trips, expenditures for an alternative school setting and staffing to site schools as part of KECSAC program. Through the staffing programming and other reductions, the District did cut approximately one million dollars in expenses for the fiscal year 2017-18 budget in an attempt to correct the overspending pattern that has been in place the last several years. With looming cuts to state funding and increased pension contributions we anticipate there will have to be more cuts to expenditures, or an increase local tax revenue.

The CERS retirement employer rate will increase to 19.18% beginning July 1, 2017, as mandated by State law. The KTRS retirement employer contribution to the retiree medical insurance fund is 3.00% and federally funded employees 16.105% as mandated. Federal Programs Health Insurance/Life Insurance reimbursements to the State of Kentucky are included in the District's budget. For the upcoming FY17-18 school year, the district remains committed to maintaining the 187 day contracts for certified teachers.

Management and the Board will review the operating budget and seek areas to reduce costs while maintaining a quality education. We will also aggressively pursue new grant funding and local community support. The support and fundraising efforts of the Montgomery School District, Alumni, and Community Leaders positively impact the educational accomplishments of this district. The Board and management believe these actions will establish an adequate cash reserve in fiscal year 2018 and future years. The District continues to receive positive feedback from the community, faculty, staff, parents and students regarding the leadership initiatives of the current Superintendent, Dr. Matthew Thompson.

Questions regarding this report should be directed to Angela Rhodes, Director of Finance, (859) 497-8760 ext. 232, email: angela.rhodes@montgomery.kyschools.us , or by mail at the Montgomery County Schools, 640 Woodford Drive., Mt. Sterling, KY 40353.

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 8,499,808	\$ 970,534	\$ 9,470,342
Accounts receivable			
Taxes	198,881	-	198,881
Accounts	5,237	20,040	25,277
Intergovernmental - Federal	580,669	-	580,669
Inventory	-	24,589	24,589
Total Current Assets	<u>9,284,595</u>	<u>1,015,163</u>	<u>10,299,758</u>
Noncurrent Assets			
Non-depreciated capital assets	18,827,082	-	18,827,082
Net depreciated capital assets	56,604,234	1,164,969	57,769,203
Total Noncurrent Assets	<u>75,431,316</u>	<u>1,164,969</u>	<u>76,596,285</u>
TOTAL ASSETS	<u>84,715,911</u>	<u>2,180,132</u>	<u>86,896,043</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension	2,553,638	292,295	2,845,933
Deferred Gain/Loss on Bond Refinance	619,502	-	619,502
Total deferred outflow of resources	<u>3,173,140</u>	<u>292,295</u>	<u>3,465,435</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	48,430	542	48,972
Current portion of bond obligations	2,495,000	-	2,495,000
Current portion of accrued sick leave	104,538	-	104,538
Accrued interest payable	358,829	-	358,829
Unearned revenues	447,057	-	447,057
Current Portion of Capital Leases	409,215	-	409,215
Current portion of KSBIT payable	75,778	-	75,778
Total Current Liabilities	<u>3,938,847</u>	<u>542</u>	<u>3,939,389</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	47,845,438	-	47,845,438
KSBIT Payable	227,334	-	227,334
Unfunded pension liability	9,799,802	1,862,992	11,662,794
Noncurrent portion Capital Leases	1,937,965	-	1,937,965
Noncurrent portion of accrued sick leave	234,677	-	234,677
Total Noncurrent Liabilities	<u>60,045,216</u>	<u>1,862,992</u>	<u>61,908,208</u>
TOTAL LIABILITIES	<u>63,984,063</u>	<u>1,863,534</u>	<u>65,847,597</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	153,301	25,785	179,086
Total deferred inflow of resources	<u>153,301</u>	<u>25,785</u>	<u>179,086</u>
NET POSITION			
Net Investment in Capital Assets	23,363,200	1,164,969	24,528,169
Restricted			
Debt Service	3,528,483	-	3,528,483
Capital projects (expendable)	418,962	-	418,962
Other purposes	69,382	-	69,382
Unrestricted	<u>(3,628,340)</u>	<u>(581,861)</u>	<u>(4,210,201)</u>
TOTAL NET POSITION	<u>\$ 23,751,687</u>	<u>\$ 583,108</u>	<u>\$ 24,334,795</u>

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 35,094,282	\$ 77,837	\$ 16,698,541	\$ -	\$ (18,317,904)	\$ -	\$ (18,317,904)
Support Services:							
Student	4,340,214	-	2,065,157	-	(2,275,057)	-	(2,275,057)
Instructional staff	3,606,762	-	1,716,168	-	(1,890,594)	-	(1,890,594)
District administration	1,574,157	-	749,015	-	(825,142)	-	(825,142)
School administration	2,509,484	-	1,194,061	-	(1,315,423)	-	(1,315,423)
Business	2,213,055	-	1,053,015	-	(1,160,040)	-	(1,160,040)
Plant operations and maintainance	5,102,267	-	2,427,758	-	(2,674,509)	-	(2,674,509)
Student transportation	3,462,088	-	1,647,329	-	(1,814,759)	-	(1,814,759)
Community services	314,839	-	149,807	-	(165,032)	-	(165,032)
Interest on long-term debt	2,348,381	-	-	1,114,351	(1,234,030)	-	(1,234,030)
Total Governmental Activities	60,565,529	77,837	27,700,851	1,114,351	(31,672,490)	-	(31,672,490)
Business Type Activities:							
Food Service	3,079,782	512,907	2,560,936	-	-	(5,939)	(5,939)
Child Care	557,614	372,788	109,994	-	-	(74,832)	(74,832)
Total Business Type Activities	3,637,396	885,695	2,670,930	-	-	(80,771)	(80,771)
Total Primary Government	\$ 64,202,925	\$ 963,532	\$ 30,371,781	\$ 1,114,351	\$ (31,672,490)	\$ (80,771)	\$ (31,753,261)
General Revenues:							
Taxes:							
Property					\$ 6,951,604	\$ -	\$ 6,951,604
Motor vehicle					782,003	-	782,003
Utilities					1,768,606	-	1,768,606
State and formula grants					20,619,621	-	20,619,621
Interest and investment earnings					211,386	6,561	217,947
Other Local revenues					752,176	-	752,176
Gain on sale of assets					9,739	-	9,739
Transfers					133,469	(133,469)	-
Total General Revenues and Transfers					31,228,604	(126,908)	31,101,696
Change in Net Position					(443,886)	(207,679)	(651,565)
Net Position - beginning of year					24,195,573	790,787	24,986,360
Net Position - end of year					\$ 23,751,687	\$ 583,108	\$ 24,334,795

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	DEBT SERVICE FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 4,597,612	\$ -	\$ 3,528,483	\$ 488,344	\$ 8,614,439
Accounts receivable					
Taxes	198,881	-	-	-	198,881
Accounts	5,237	-	-	-	5,237
Intergovernmental - Federal	-	580,669	-	-	580,669
TOTAL ASSETS	\$ 4,801,730	\$ 580,669	\$ 3,528,483	\$ 488,344	\$ 9,399,226
LIABILITIES:					
Cash Overdraft	\$ -	\$ 114,631	\$ -	\$ -	\$ 114,631
Accounts payable	29,449	18,981	-	-	48,430
Accrued sick leave	1,518	-	-	-	1,518
Unearned revenue	-	447,057	-	-	447,055
TOTAL LIABILITIES	30,967	580,669	-	-	611,634
FUND BALANCES:					
Restricted	-	-	3,528,483	488,344	4,016,827
Committed	320,253	-	-	-	320,253
Unassigned	4,450,510	-	-	-	4,450,510
TOTAL FUND BALANCES	4,770,763	-	3,528,483	488,344	8,787,590
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,801,730	\$ 580,669	\$ 3,528,483	\$ 488,344	\$ 9,399,224

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Governmental Fund Balances	\$	8,787,590
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position		
Capital assets		75,431,316
Deferred outflows 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		
Deferred loss on refunding Pension Plan		619,502 2,553,638
Certain assets (obligations) are not a use of financial resources and therefore, are not reported in the government funds, but are presented in the statement of net position		
Unfunded pension liability		(9,799,802)
Deferred inflows 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		
Pension plan		(153,301)
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position		
Bond obligations		(50,340,438)
Capital Lease obligations		(2,347,180)
Accrued interest		(358,829)
Other accrued liabilities		(303,112)
Accrued sick leave		(337,697)
		<u> </u>
Net Position of Governmental Activities	\$	<u><u>23,751,687</u></u>

MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	DEBT SERVICE FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 4,641,361	\$ -	\$ -	\$ 2,310,243	\$ 6,951,604
Motor vehicle	782,003	-	-	-	782,003
Utilities	1,768,606	-	-	-	1,768,606
Earnings on investments	86,081	1,248	114,134	9,923	211,386
Tuition	77,837	-	-	-	77,837
Other local revenues	242,901	231,704	-	274,906	749,511
Intergovernmental - State	28,361,248	1,818,775	152,006	2,171,535	32,503,564
Intergovernmental - Indirect federal	136,348	3,461,152	1,173,026	-	4,770,526
TOTAL REVENUES	36,096,385	5,512,879	1,439,166	4,766,607	47,815,037
EXPENDITURES:					
Current:					
Instruction:	21,348,123	3,661,370	-	79,031	25,088,524
Support Services:					
Student	2,863,479	375,202	-	-	3,238,681
Instructional staff	1,639,887	1,148,832	-	184,555	2,973,274
District administration	1,364,528	5,946	-	-	1,370,474
School administration	1,765,981	-	-	-	1,765,981
Business	1,612,601	33,477	-	-	1,646,078
Plant operations and maintainance	4,096,782	19,267	-	-	4,116,049
Student transportation	2,093,865	47,938	-	-	2,141,803
Community Services	37,459	303,309	-	-	340,768
Capital Outlay	615,086	-	-	2,226,929	2,842,015
Debt service	472,189	-	4,765,385	-	5,237,574
TOTAL EXPENDITURES	37,909,980	5,595,341	4,765,385	2,490,515	50,761,221
Excess (Deficit) of Revenues over Expenditures	(1,813,595)	(82,462)	(3,326,219)	2,276,092	(2,946,184)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	656,742	210,978	3,972,872	43,693	4,884,285
Operating transfers out	(136,950)	(128,516)	-	(4,485,350)	(4,750,816)
Proceeds from sale of fixed assets	9,739	-	-	-	9,739
Issuance of debt	231,951	-	-	-	231,951
TOTAL OTHER FINANCING SOURCES (USES):	761,482	82,462	3,972,872	(4,441,657)	375,159
Net Change in Fund Balances	(1,052,113)	-	646,653	(2,165,565)	(2,571,025)
Fund balance - beginning of year	5,822,876	-	2,881,830	2,653,909	11,358,615
Fund balance - end of year	\$ 4,770,763	\$ -	\$ 3,528,483	\$ 488,344	\$ 8,787,590

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$ (2,571,025)
Amounts reported for governmental activities in the statement of activities are different because:	
Bond discounts are expensed as incurred in the fund financial statement, but are amortized over the life of the bond in the statement of activities:	
Amortization expense	(47,789)
The proceeds from the disposal of capital assets provide current financial resources and are reported in the fund financial statements. However, for governmental activities the proceeds are reported net of the cost less any accumulated depreciation.	
	(5,167)
Bond and Capital Lease proceeds are recognized in this fund financial statement as resources available for use as current financial resources, but bond proceeds are not recognized in the statement of activities.	
Capital Lease	(231,951)
Governmental funds do not report the effect of gain or loss on refunding debt, whereas these are amounts are deferred and amortized in the statement of activities	
	(51,283)
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	
Capital outlays	2,842,015
Depreciation expense	(2,689,127)
Generally, expenditures recognized in the fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	
Accrued interest	578
Sick leave	(64,224)
Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, and the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.	
KTRS on-behalf revenue	12,244,173
KTRS on-behalf pension expense	(12,244,173)
Pension expense	(613,599)
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net position.	
	<u>2,987,686</u>
Change in Net Position of Governmental Activities:	<u>\$ (443,886)</u>

See Accompanying Notes to the Financial Statements

MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 4,245,000	\$ 4,380,000	\$ 4,641,361	\$ 261,361
Motor vehicle	700,000	750,000	782,003	32,003
Utilities	2,000,000	1,850,000	1,768,606	(81,394)
Tuition and fees	63,000	63,000	77,837	14,837
Earnings on investments	55,000	55,000	86,081	31,081
Other local revenues	189,500	223,000	242,901	19,901
Intergovernmental	27,633,650	27,293,750	28,497,596	1,203,846
TOTAL REVENUES	<u>34,886,150</u>	<u>34,614,750</u>	<u>36,096,385</u>	<u>1,481,635</u>
EXPENDITURES:				
Current:				
Instruction:	21,579,681	21,118,759	21,348,123	(229,364)
Support Services:				
Student	2,576,689	2,679,030	2,863,479	(184,449)
Instructional staff	1,643,300	1,626,398	1,639,887	(13,489)
District administration	1,719,030	1,512,505	1,364,528	147,977
School administration	1,687,567	1,707,320	1,765,981	(58,661)
Business	1,506,963	1,516,080	1,612,601	(96,521)
Plant operations and maintenance	4,127,501	4,183,240	4,100,982	82,258
Student transportation	2,657,926	2,591,390	2,704,751	(113,361)
Community Services	50,315	44,425	37,459	6,966
Debt service	458,000	475,000	472,189	2,811
TOTAL EXPENDITURES	<u>38,006,972</u>	<u>37,454,147</u>	<u>37,909,980</u>	<u>(455,833)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(3,120,822)</u>	<u>(2,839,397)</u>	<u>(1,813,595)</u>	<u>1,025,802</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	438,163	635,014	656,742	21,728
Operating transfers out	(110,000)	(100,000)	(136,950)	(36,950)
Proceeds from Sale of Assets	5,000	5,000	9,739	4,739
Contingency	(4,709,466)	(3,399,859)	-	3,399,859
Issuance of Debt	-	-	231,951	231,951
TOTAL OTHER FINANCING SOURCES (USES):	<u>(4,376,303)</u>	<u>(2,859,845)</u>	<u>761,482</u>	<u>3,621,327</u>
Net Change in Fund Balances	(7,497,125)	(5,699,242)	(1,052,113)	4,647,129
Fund balance - beginning of year	7,497,125	5,699,242	5,822,876	123,634
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,770,763</u>	<u>\$ 4,770,763</u>

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	SPECIAL REVENUE FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Other local revenues	\$ 60,000	\$ 59,856	\$ 232,952	\$ 173,096
Intergovernmental - State	1,863,389	1,987,681	1,818,775	(168,906)
Intergovernmental - Indirect federal	3,423,535	3,439,757	3,461,152	21,395
TOTAL REVENUES	<u>5,346,924</u>	<u>5,487,294</u>	<u>5,512,879</u>	<u>25,585</u>
EXPENDITURES:				
Current:				
Instruction:	3,385,949	3,742,131	3,661,370	80,761
Support Services:				
Student	257,224	286,420	375,202	(88,782)
Instructional staff	1,306,985	1,053,992	1,148,832	(94,840)
District administration	6,242	6,209	5,946	263
Business	32,565	30,944	33,477	(2,533)
Plant operations and maintenance	96,639	83,000	19,267	63,733
Student transportation	71,992	69,135	47,938	21,197
Community services	299,328	312,812	303,309	9,503
TOTAL EXPENDITURES	<u>5,456,924</u>	<u>5,584,643</u>	<u>5,595,341</u>	<u>(10,698)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(110,000)</u>	<u>(97,349)</u>	<u>(82,462)</u>	<u>14,887</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	228,684	217,721	210,978	(6,743)
Operating transfers out	(118,684)	(120,372)	(128,516)	(8,144)
TOTAL OTHER FINANCING SOURCES (USES):	<u>110,000</u>	<u>97,349</u>	<u>82,462</u>	<u>(14,887)</u>
Net Change in Fund Balances	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	<u>FOOD SERVICE FUND</u>	<u>DAY CARE FUND</u>	<u>TOTAL PROPRIETARY FUNDS</u>
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 929,456	\$ 41,078	\$ 970,534
Accounts receivable	18,630	1,410	20,040
Inventory	24,589	-	24,589
Total Current Assets	<u>972,675</u>	<u>42,488</u>	<u>1,015,163</u>
Noncurrent Assets			
Machinery & equipment	3,326,101	-	3,326,101
Accumulated depreciation	<u>(2,161,132)</u>	<u>-</u>	<u>(2,161,132)</u>
Total Noncurrent Assets	<u>1,164,969</u>	<u>-</u>	<u>1,164,969</u>
TOTAL ASSETS	<u>2,137,644</u>	<u>42,488</u>	<u>2,180,132</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension Plan	<u>204,352</u>	<u>87,943</u>	<u>292,295</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>204,352</u>	<u>87,943</u>	<u>292,295</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	<u>-</u>	<u>542</u>	<u>542</u>
Noncurrent Liabilities			
Unfunded pension liability	<u>1,311,108</u>	<u>551,884</u>	<u>1,862,992</u>
TOTAL LIABILITIES	<u>1,311,108</u>	<u>552,426</u>	<u>1,863,534</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Plan	<u>17,721</u>	<u>8,064</u>	<u>25,785</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>17,721</u>	<u>8,064</u>	<u>25,785</u>
NET POSITION:			
Net Investment in Capital Assets	1,164,969	-	1,164,969
Restricted	<u>(151,802)</u>	<u>(430,059)</u>	<u>(581,861)</u>
TOTAL NET POSITION	<u>\$ 1,013,167</u>	<u>\$ (430,059)</u>	<u>\$ 583,108</u>

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	FOOD SERVICE FUND	DAY CARE FUND	TOTAL PROPRIETARY FUNDS
OPERATING REVENUES:			
Lunchroom sales	\$ 512,907	\$ -	\$ 512,907
Other operating revenues	-	372,788	372,788
TOTAL OPERATING REVENUES	512,907	372,788	885,695
OPERATING EXPENSES:			
Salaries and wages	730,776	325,541	1,056,317
Employee benefits	499,623	183,561	683,184
Contract services	85,324	8,512	93,836
Materials and supplies	1,617,027	37,927	1,654,954
Property	245	-	245
Miscellaneous	10,413	2,033	12,446
Depreciation	136,374	40	136,414
TOTAL OPERATING EXPENSES	3,079,782	557,614	3,637,396
Operating income (loss)	(2,566,875)	(184,826)	(2,751,701)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	2,122,523	7,190	2,129,713
Federal commodities	161,526	-	161,526
State grants	276,887	102,804	379,691
Interest income	6,561	-	6,561
NON-OPERATING REVENUES (EXPENSES)	2,567,497	109,994	2,677,491
Net income (loss) before operating transfers	622	(74,832)	(74,210)
Operating transfers	(133,469)	-	(133,469)
Change in net position	(132,847)	(74,832)	(207,679)
Total net position - beginning of year	1,146,014	(355,227)	790,787
Total net position - end of year	\$ 1,013,167	\$ (430,059)	\$ 583,108

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	FOOD SERVICE FUND	DAY CARE FUND	TOTAL PROPRIETARY FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 508,639	\$ 383,102	\$ 891,741
Cash paid to suppliers	(1,551,483)	(48,704)	(1,600,187)
Cash paid to employees	(909,929)	(371,556)	(1,281,485)
Net Cash Provided (Used) by Operating Activities	(1,952,773)	(37,158)	(1,989,931)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers	(133,469)	-	(133,469)
Governmental grants	2,148,762	4,494	2,153,256
Net Cash Provided (Used) by Noncapital Activities	2,015,293	4,494	2,019,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	-	-	-
Net Cash Provided (Used) by Financing Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	6,561	-	6,561
Net Cash Provided (Used) by Investing Activities	6,561	-	6,561
Net Increase (Decrease) in Cash and Cash Equivalents	69,081	(32,664)	36,417
Cash and cash equivalents - beginning of year	860,375	73,742	934,117
Cash and cash equivalents - end of year	\$ 929,456	\$ 41,078	\$ 970,534
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,566,875)	\$ (184,826)	\$ (2,751,701)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Federal commodities	161,526	-	161,526
On-behalf payments	250,648	105,460	356,108
Depreciation	136,374	40	136,414
Changes in Assets and Liabilities:			
Accounts Receivable	(4,268)	10,314	6,046
Inventory	-	-	-
Deferred outflows	(63,665)	(29,220)	(92,885)
Accounts payable	-	(192)	(192)
Deferred inflows	11,236	5,157	16,393
Net Pension	122,251	56,109	178,360
Net Cash Provided (Used) by Operating Activities:	\$ (1,952,773)	\$ (37,158)	\$ (1,989,931)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 161,526	\$ -	\$ 161,526
On-behalf payments	\$ 250,648	\$ 105,460	\$ 356,108

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	<u>SPECIAL PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
ASSETS:		
Cash and cash equivalents	\$ 272,105	\$ 164,229
Accounts receivable	<u>38,307</u>	<u>138</u>
TOTAL ASSETS	\$ <u>310,412</u>	\$ <u>164,367</u>
LIABILITIES:		
Accounts payable	\$ 2,722	\$ -
Due to student groups	<u>-</u>	<u>164,367</u>
TOTAL LIABILITIES	\$ <u>2,722</u>	\$ <u>164,367</u>
NET POSITION:		
Net position - restricted for school activity funds	\$ <u>307,690</u>	\$ <u>-</u>

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	SPECIAL PURPOSE TRUST FUNDS
ADDITIONS	
Contributions	\$ 307,986
Interest Income	98
Total Additions	308,084
DEDUCTIONS	
Community Service Activities	214,639
Change in Net Position	93,445
Total net position - beginning of year	214,245
Total net position - end of year	\$ 307,690

See Accompanying Notes to the Financial Statements

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 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 the 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, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

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

Blended Component Unit

Montgomery County School District Finance Corporation - In a prior year, the Board resolved to authorize the establishment of the Montgomery County School District Finance Corporation (a non-stock, non-profit corporation organized under School Bond Act and Chapter 273 and KRS 58.180) (the Corporation) as an agency of the District for financing the costs of school building improvements. The Board members of the Montgomery County Board of Education also comprise the corporation's Board of Directors. The Corporation does not publish individual component unit financial statements.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

BASIS OF PRESENTATION

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary 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 financial statements and the statements for governmental funds.

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

Fund Financial Statements

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

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 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 the 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.

The District has the following funds:

I. Governmental Fund Types

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

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The Special Revenue Fund is a major fund.

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

- 1) The Support Education Excellence in Kentucky (SEEK) Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions. This is a non-major fund of the District.
- 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. This is a non-major fund of the District.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

- 3) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bonds issues are used for various construction and renovation projects. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a non-major fund of the District.

(D) The Debt Service Fund accounts for financial resources used for payment of principal and interest and other debt related costs. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

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

(B) The Day Care Fund is used to account for child care revenue. The Day Care Fund is a major fund.

III. Fiduciary Fund Type (Agency)

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

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises during the period for which taxes are levied, but only after the District has completed certain legal steps to establish the enforceable legal claim. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements when in which the District must provide local resources to be used for a specified purpose and expenditure requirements for in which the resources that are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized in the governmental fund statements.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Revenues – Exchange and Non-Exchange Transactions (Cont'd)

In the Government-wide Statement of Net position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as unearned revenues until all eligibility requirements have been met.

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Cash and Cash Equivalents

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

Inventory

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

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 acquisition values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed.

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

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1st 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 unpaid after December 31st, are considered delinquent and the County Attorney can file a lien against the property, after certain notices are provided to taxpayers.

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, if the taxes are restricted to a specific purpose, such as the Building Fund (FSPK).

The property tax rates assessed for the year ended June 30, 2017 to finance the General Fund operations were \$.508 per \$100 valuation for real property, \$.508 per \$100 valuation for business personal property and \$.463 per \$100 valuation for motor vehicles. The District levies a 3% utility tax on all businesses and households within the County.

Interfund Balances

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 the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Budgetary Process

The District's budgetary process accounts for certain transactions on a basis of accounting other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. As a result, several programs exceeded budgetary appropriations. However, these amounts were funded by the on-behalf revenues from the State. (See Note 15). In addition, capital outlay is budgeted with the departmental budget (budget basis) rather than as a separate category (GAAP basis)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per District policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end. The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

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

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 the accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Balances

The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for fiscal year 2011 for its governmental funds. Fund balances for each of the District's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the Board's highest level of decision-making authority, which is a resolution.
- *Assigned fund balance*—amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board or a delegated entity had the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund includes amounts that have been appropriated for expenditures in the budget for the District's subsequent fiscal year.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the District's 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.

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. Net invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and any deferred outflows/inflows related to debt issued for capital financing. Net position is reported as restricted when there are limitations imposed on its 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 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 various schools and fees charged for day care services. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Interfund Activity

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 the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

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 in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports two types of deferred outflows- contributions to the CERS pension system after the measurement period and the unrecognized portion of a deferred loss on the refinancing of long-term debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until appropriate period. The District reports one type of deferred inflows related to the change in the District's proportionate share of contributions to the CERS pension plan. (see Note 7).

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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 CERS and KTRS, respectively. 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.

New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will revise employer accounting and reporting for other postemployment benefits (OPEB) and implement requirements similar to the provisions of GASBS No. 68 and No. 73 for pension benefits. GASBS No. 75 will be effective for the District beginning July 1, 2018, and will require the District to report its proportionate share of the net OPEB liability, deferred outflows and inflows of resources, and OPEB expense related to the CERS cost-sharing defined benefit OPEB plan. In addition, the District's note disclosures for the KTRS cost-sharing defined benefit OPEB plan will be expanded to include a description of the state's proportionate shares of these balances related to the District. The District has not determined the financial impact of the implementation of GASBS No. 75.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

New Accounting Pronouncements (Cont.)

GASB Statement No. 82, *Pension Issues* (GASB 82), addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan members) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the District beginning with the year in which the measurement date of the pension liability is on or after June 15, 2017. The District has not determined the financial impact of GASBS No. 82.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end, the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC Insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$9,906,675. The bank balance for the same time was \$11,372,613.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$3,631,393	\$0	\$0	\$3,631,393
Construction in Progress	12,992,874	2,202,815	0	15,195,690
Total Capital Assets not being depreciated	16,624,267	2,202,815	0	18,827,082
Other Capital Assets				
Land Improvements	4,506,037	0	0	4,506,037
Buildings & Improvements	84,236,421	0	0	84,236,421
Technological Equipment	2,824,021	19,114	153,773	2,689,362
Vehicles	5,526,299	610,886	55,550	6,081,635
General Equipment	3,532,410	9,200	9,750	3,531,860
Infrastructure	136,126	0	0	136,126
Total Other Assets	100,761,314	639,200	219,073	101,181,442
Less accumulated depreciation for:				
Land Improvements	(2,908,592)	(159,571)	0	(3,068,163)
Buildings & Improvements	(30,175,148)	(2,058,446)	0	(32,233,594)
Technological Equipment	(2,758,888)	(51,898)	(153,482)	(2,657,304)
Vehicles	(2,726,235)	(390,617)	(55,550)	(3,061,302)
General Equipment	(3,401,128)	(26,148)	(5,333)	(3,421,943)
Infrastructure	(132,454)	(2,448)	0	(134,902)
Total accumulated depreciation	(42,102,445)	(2,689,127)	(214,364)	(44,577,208)
Other Capital Assets, net	58,658,869	(2,049,927)	4,708	56,604,234
Governmental Activities, net	\$75,283,136	\$152,889	\$4,708	\$75,431,316
Business Activities:				
Buildings & Improvements	\$1,674,234	\$0	\$0	\$1,674,234
Technological Equipment	25,143	0	277	24,867
Vehicles	45,252	0	0	45,252
General Equipment	1,609,158	0	24,092	1,585,065
Total	3,353,787	0	24,369	3,329,418
Less accumulated depreciation for:				
Buildings & Improvements	(847,713)	(47,679)	0	(895,392)
Technological Equipment	(24,900)	(235)	(277)	(24,859)
Vehicles	(45,252)	0	0	(45,252)
General Equipment	(1,134,538)	(88,500)	(24,092)	(1,198,946)
Total accumulated depreciation	(2,052,404)	(136,414)	(24,369)	(2,164,449)
Business Activities, net	\$1,301,383	(\$136,414)	\$0	\$1,164,969

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to functions of the governmental activities of the District as follows:

Governmental Activities:

Instruction	\$2,089,756
Support Services:	
Student	17,877
Instructional Staff	2,015
District Administration	18,964
School Administration	11,611
Business	11,971
Plant Operations & Maintenance	116,221
Student Transportation	420,711
Total depreciation expense, governmental activities	\$2,689,127

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS

Bonds

The District, through the General Fund, the Building Fund, and the SEEK Capital Outlay Fund are 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 the option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996, the District entered into "Participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (Cont'd)

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

Issue	Proceeds	Rates	Maturity Dates	Outstanding Balance June 30, 2017
2007B	\$3,030,000	3.33% - 3.88%	9/1/2017	\$90,000
2008	3,435,000	3.00% - 3.50%	7/1/2017	385,000
2010 QSBC	12,576,000	5.88%	12/1/2027	12,576,000
2011	8,260,000	1.70% - 2.90%	6/1/2023	5,975,000
2014	15,500,000	3.00% - 3.50%	9/1/2034	15,140,000
2014A	4,390,000	2.00% - 3.25%	12/1/2030	4,090,000
2014B	5,650,000	1.00% - 3.00%	3/1/2025	4,700,000
2015	2,820,000	2.00% - 2.50%	4/1/2026	2,595,000
2016	4,455,000	2.00%	9/1/2027	4,385,000
	<u>\$60,116,000</u>			<u>\$49,936,000</u>

The bonds which 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, 2017 for debt service (principal and interest) are as follows:

Year	Montgomery County School District		Kentucky School Construction Commission		Federal Rebate QSCB	Total
	Principal	Interest	Principal	Interest	Interest	
2018	\$2,368,061	\$1,023,759	\$126,939	\$20,988	\$714,317	\$4,254,064
2019	2,416,326	976,588	88,674	18,121	714,317	4,214,026
2020	2,469,921	924,774	50,079	15,885	714,317	4,174,976
2021	2,518,620	867,863	51,380	14,596	714,317	4,166,776
2022	2,582,256	808,366	52,744	13,244	714,317	4,170,927
2023-2027	24,745,446	3,018,519	200,554	47,770	3,571,584	31,583,873
2028-2032	7,944,053	1,438,518	120,947	25,669	357,158	9,886,345
2033-2035	4,123,135	292,793	76,865	5,232	0	4,498,025
	<u>\$49,167,818</u>	<u>\$9,351,180</u>	<u>\$768,182</u>	<u>\$161,505</u>	<u>\$7,500,326</u>	<u>\$66,949,011</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (Cont'd)

Capital Leases

Following is an analysis of the leased property under capital lease through KISTA:

<u>KISTA Issue</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2016 <u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	2017 <u>Outstanding Balance</u>
Issue of 2006B	3/1/2017	3.5-3.875%	\$ 20,969	\$ -	\$ 20,969	\$ -
Issue of 2008	3/1/2018	3.0-3.75%	51,513	-	25,284	26,229
Issue of 2009	3/1/2019	2-3.9%	97,965	-	35,724	62,241
Issue of 2009C	3/1/2020	2-3.6%	109,175	-	28,286	80,889
1st Issue of 2010	3/1/2020	1-3.3%	32,016	-	8,321	23,695
1st Issue of 2011	3/1/2021	1-4.0%	40,083	-	8,167	31,916
2nd Issue of 2011B	3/1/2021	1-3.6%	97,018	-	19,178	77,840
2nd Series of 2012	3/1/2022	.95-2.5%	221,927	-	37,310	184,617
First Series of 2013	3/1/2023	2-2%	423,145	-	59,916	363,229
Issue of 2014	3/1/2024	2-3%	475,866	-	57,708	418,158
Issue of 2015	3/1/2025	1-2.65%	561,448	-	68,499	492,949
Issue of 2016	3/1/2026	2-2.625%	396,791	-	43,325	353,466
					-	
Issue of 2017	3/1/2027	2.55%	-	231,951		231,951
Totals			\$ 2,527,916	\$ 231,951	\$ 412,687	\$ 2,347,180

The following is a schedule by years of the future minimum lease payments under KISTA capital lease together with the present value of the net minimum lease payments as of June 30, 2017:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$409,215	\$80,068	\$489,283
2019	377,730	71,481	449,211
2020	345,202	58,587	403,789
2021	312,802	51,054	363,856
2022	280,572	44,551	325,123
2023-2027	621,659	148,360	770,019
	<u>\$2,347,180</u>	<u>\$454,101</u>	<u>\$2,801,281</u>

Capital Leases

The following is an analysis of the leased property under capital leases by class at June 30, 2017:

<u>Class of Property</u>	<u>Amount</u>
Buses Book Value	\$1,867,036

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (Cont'd)

KSBIT Payable

In 2013, the Kentucky School Board Insurance Trust (KSBIT) notified the District that its self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment was required, under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members, to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of insurance using the novation option of funding. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will take over the future responsibility for all present and future claims. The District's liability under the novation method was estimated to be \$866,534. The District elected to make an initial payment of 30% of its assessment and finance the remaining liability over 6 years. The plan was approved in June 2014 and the first payment was due by August 31, 2014.

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2017:

	06/30/17 Beginning Balance	Additions	Reductions	06/30/17 Ending Balance	Amounts Due Within One Year
Bonds	\$52,416,000	\$ -	\$ 2,480,000	\$49,936,000	\$ 2,495,000
Net Bond Premium (Discounts)	438,347	-	33,909	404,438	-
Capital Leases	2,527,916	231,951	412,687	2,347,180	409,215
Sick Leave	298,772	90,872	50,429	339,215	104,538
KSBIT Payable	378,890	-	75,778	303,112	75,778
Total	<u>\$56,059,925</u>	<u>\$ 322,823</u>	<u>\$ 3,052,803</u>	<u>\$53,329,945</u>	<u>\$ 3,084,531</u>

NOTE 6 - COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$314,290
2019	78,565
2020	12,495
2021	0
2022	0
	<u>\$405,350</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN

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.

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

CERS Post-employment healthcare benefits

Plan Description—CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member’s years of service and type of service.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Funding policy—CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.70% of the 19.18% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1% of the Tier 2 and Tier 3 6% employee contribution, is allocated to the health insurance plan.

Contributions—Employer contributions compared to the actuarially required contributions are outlined in the following table:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CERS Nonhazardous Plan			
Actuarially Required Contributions	\$ 291,669	\$ 278,572	\$ 277,786
Contributions Recognized by Plan	\$ 291,669	\$ 278,572	\$ 277,786
Difference	\$ -	\$ -	\$ -
Covered Payroll	\$ 6,205,714	\$ 5,650,548	\$ 5,692,338
Contributions as Percentage of Payroll	4.70%	4.93%	4.88%

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' served and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. 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.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

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

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.

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.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

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 12.855% of their salaries to the System. University employees are required to contribute 10.400% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to KTRS.

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 16.105% 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.

Retirement Plans

The District also offers employees the option to participate in defined contribution plans under Sections 403(B) and 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. These plans are administered by independent third party administrators.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements. Employee contributions made to the plans during the year totaled 255,400. The District does not contribute to these plans.

KTRS POST-EMPLOYMENT HEALTH CARE BENEFITS

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, seven and one-half percent (7.5%) 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 three percent (3%) 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.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Contributions—Employer contributions compared to the actuarially required contributions are outlined in the following table:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
KTRS Plan			
Actuarially Required Contributions	\$ 640,425	\$ 482,114	\$ 458,109
Contributions Recognized by Plan	<u>\$ 640,425</u>	<u>\$ 482,114</u>	<u>\$ 458,109</u>
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$21,347,513	\$21,427,288	\$20,360,393
Contributions as Percentage of Payroll	3.00%	2.25%	2.25%

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

At June 30, 2017, 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 net CERS pension liability	\$ 11,662,793
Commonwealth's proportionate share of the net KTRS pension liability associated with the District	<u>188,334,884</u>
	<u>\$ 199,997,677</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability for both systems were determined by an actuarial valuation as of that date.

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, 2016, the District's proportion was .23687 percent.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

For the year ended June 30, 2017, the District recognized pension expense of \$715,467 (\$163,599 in Governmental funds and \$101,868 in Proprietary funds) related to CERS and \$15,343,057 related to KTRS. The District also recognized revenue of \$15,343,057 for KTRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,917	\$ -
Changes of assumptions	617,832	-
Net difference between projected and actual earnings on pension plan investments	1,096,422	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	179,086
District contributions subsequent to the measurement date	1,080,762	-
	\$ 2,845,933	\$ 179,086

\$1,080,762 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense.

<u>Year ended June 30:</u>	<u>Outflows</u>	<u>Inflows</u>
2018	\$655,673	\$35,817
2019	\$438,661	\$35,817
2020	\$427,253	\$35,817
2021	\$243,584	\$35,817
2022	\$0	\$35,818

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Actuarial assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females).

For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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 reported was performed in 2011 and the next experience study was conducted in 2016, and will be reflected in the June 30, 2017 GASB 67 and GASB 68 reports.

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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 target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment consultant, are summarized in the following table:

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.4%
Combined Fixed income	19.0%	1.5%
Real Return (Diversified Inflation Strategies)	10.0%	3.5%
Real Estate	5.0%	4.5%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.5%
Cash Equivalents	2.0%	-0.25%
Total	<u>100.0%</u>	

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:

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	<u>100.0%</u>	

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 7.50%. 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 4.20%. 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 2040 plan year.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. 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:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>
CERS	6.50%		7.50%		8.50%
District's proportionate share of net pension liability	\$ 14,533,456	\$	11,662,793	\$	9,201,657
KTRS	3.20%		4.20%		5.20%
District's proportionate share of net pension liability	\$ 0	\$	0	\$	0

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.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – 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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. At June 30, 2017, this amount totaled \$339,215. The District follows a policy of funding up to one-half of the total amount accrued as a commitment of the General Fund balance.

NOTE 9- INSURANCE AND RELATED ACTIVITIES

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

NOTE 10 - CONTINGENCIES

Funding for the District's Grant Funds is provided by federal, state and local government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review, the funds are considered not to have been used for the intended purpose the grantor may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such a fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, and for any reason, by giving ninety days notice.

In the event the Trust terminated coverage, any amount remaining in the Fund would be returned to the member on a pro rata basis.

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

NOTE 12 - COBRA

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

NOTE 13 - DEFICIT OPERATING/ FUND BALANCES

Day Care Fund is operating as a deficit fund balance of \$430,059 at June 30, 2017. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in the following reductions of fund balances:

General Fund	\$1,052,113
Construction	\$2,167,678
SEEK Capital Outlay	\$3,572
Food Service	\$132,847
Day Care Fund	\$74,832

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 – INTERFUND TRANSACTIONS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS & Grant Match	\$93,257
General	District Activity	Athletics	\$43,693
General	Special Revenue	Operations	\$117,721
Building Fund	General	Construction	\$88,631
Building Fund	Debt Service	Debt Service	\$3,972,872
Capital Outlay	General	Capital Assets	\$423,847
Special Revenue	General	Indirect Costs	\$128,516
Food Service	General	Indirect Costs	\$133,469

NOTE 15 - ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2017, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

Kentucky Teachers Retirement System	\$ 3,098,884
Health & Life Insurance	4,858,613
Technology	92,684
Debt Service	<u>152,006</u>
Recognized at the Fund Level	\$ <u>8,202,187</u>
Additional pension expense recognized at the	
Government-Wide Level	\$ <u>12,244,173</u>
Total On-Behalf	\$ <u><u>20,446,360</u></u>

These payments were recorded in the appropriate revenue and expense accounts on the statement of revenue, expenses, and changes in fund balance as follows:

General Fund	\$ 7,694,073
Food Service Fund	250,648
Childcare Fund	105,460
Debt Service Fund	<u>152,006</u>
Total	\$ <u><u>8,202,187</u></u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16– LITIGATION

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

NOTE 18– SUBSEQUENT EVENTS

In preparing these financial statements, management of the District has evaluated events and transaction for potential recognition or disclosure through October 3, 2017, the date the financial statements were available to be issued.

MONTGOMERY COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULES

**MONTGOMERY COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2017 (2016)	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
District's proportion of the net pension liability	0.23687%	0.24212%	0.24460%
District's proportionate share of the net pension liability	\$ 11,662,793	\$ 10,410,081	\$ 7,936,000
District's covered-employee payroll	\$ 5,697,660	\$ 5,650,548	\$ 5,692,338
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	204.694%	184.231%	139.415%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:			
District's proportion of the net pension liability	0.6384%	0.6226%	0.6449%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	\$ 188,334,884	\$ 144,885,786	\$ 132,528,897
Total	<u>\$ 188,334,884</u>	<u>\$ 144,885,786</u>	<u>\$ 132,528,897</u>
District's covered-employee payroll	\$ 21,347,513	\$ 21,427,288	\$ 20,360,393
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**MONTGOMERY COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
Contractually required contribution	\$ 672,973	\$ 722,892	\$ 1,060,021
Contributions in relation to the contractually required contribution	<u>672,973</u>	<u>722,892</u>	<u>1,060,021</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 5,697,660	\$ 5,650,548	\$ 5,692,338
District's contributions as a percentage of its covered-employee payroll	11.81%	12.79%	18.62%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:			
Contractually required contribution	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 21,347,513	\$ 21,427,288	\$ 20,360,393
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 Years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

Changes of Benefit Terms -

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of Assumptions:

The assumed investment rate remained 7.5%.
 The assumed rate of inflation remained 3.25%.
 The assumed rate of wage inflation remained .75%.
 Payroll growth assumption remained 4%.
 The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
 For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
 The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

KENTUCKY TEACHER'S RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates in the shedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial Cost Method	Entry Age
Amortization Period	Level percentage of payroll, open
Remaining Amortization Period	30 Years
Asset Valuation Method	5-year smoothed market
Inflation	3.50%
Salary Increase	4.00 to 8.20%, including inflation
Ultimate Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

Changes of Benefit Terms - None

Changes of Assumptions:

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used.

MONTGOMERY COUNTY SCHOOL DISTRICT
SUPPLEMENTAL SCHEDULES

**MONTGOMERY COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	DISTRICT ACTIVITY FUND	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 75,067	\$ -	\$ 21,100	\$ 392,177	\$ 488,344
TOTAL ASSETS	<u>75,067</u>	<u>-</u>	<u>21,100</u>	<u>392,177</u>	<u>488,344</u>
FUND BALANCES:					
Restricted	75,067	-	21,100	392,177	488,344
TOTAL FUND BALANCES	<u>75,067</u>	<u>-</u>	<u>21,100</u>	<u>392,177</u>	<u>488,344</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017**

	DISTRICT ACTIVITY FUND	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ -	\$ -	\$ 2,310,243	\$ -	\$ 2,310,243
Earnings on investments	-	-	-	9,923	9,923
Fees	14,807	-	-	-	14,807
Other	234,885	-	-	25,214	260,099
Intergovernmental - State	-	420,275	1,751,260	-	2,171,535
TOTAL REVENUES	<u>249,692</u>	<u>420,275</u>	<u>4,061,503</u>	<u>35,137</u>	<u>4,766,607</u>
EXPENDITURES:					
Current:					
Instruction	79,031	-	-	-	79,031
Instructional staff support	184,555	-	-	-	184,555
Capital Outlay	24,114	-	-	2,202,815	2,226,929
Debt Service	-	-	-	-	-
TOTAL EXPENDITURES	<u>287,700</u>	<u>-</u>	<u>-</u>	<u>2,202,815</u>	<u>2,490,515</u>
Excess (Deficit) of Revenues over Expenditures	<u>(38,008)</u>	<u>420,275</u>	<u>4,061,503</u>	<u>(2,167,678)</u>	<u>2,276,092</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	43,693	-	-	-	43,693
Operating transfers out	-	(423,847)	(4,061,503)	-	(4,485,350)
TOTAL OTHER FINANCING SOURCES (USES):	<u>43,693</u>	<u>(423,847)</u>	<u>(4,061,503)</u>	<u>-</u>	<u>(4,441,657)</u>
Net Change in Fund Balances	5,685	(3,572)	-	(2,167,678)	(2,165,565)
Fund balance - beginning of year	69,382	3,572	21,100	2,559,855	2,653,909
Fund balance - end of year	<u>\$ 75,067</u>	<u>\$ -</u>	<u>\$ 21,100</u>	<u>\$ 392,177</u>	<u>\$ 488,344</u>

**MONTGOMERY COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
 AND FUND BALANCES
 SCHOOL ACTIVITY FUNDS
 For The Year Ended June 30, 2017**

	Cash Balances June 30, 2016	Receipts	Disbursements	Cash Balances June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Fund Balances June 30, 2017
Montgomery Co. High School	\$ 65,386	\$ 173,160	\$ 157,071	\$ 81,476	\$ 40	\$ -	\$ 81,516
McNabb Middle School	23,311	52,919	54,192	22,038	15	-	22,053
Montgomery Co Intermediate School	11,301	26,349	27,985	9,665	19	-	9,684
Mapleton Elementary	19,638	47,797	50,180	17,255	26	-	17,281
Mt Sterling Elementary	18,661	43,012	46,606	15,067	38	-	15,105
Camargo Elementary	17,315	19,573	23,035	13,853	-	-	13,853
Camargo Charitable Gaming	968	750	750	968	-	-	968
Mt. Sterling Elem. Charitable Gaming	3,490	854	438	3,906	-	-	3,906
	<u>\$ 160,070</u>	<u>\$ 364,414</u>	<u>\$ 360,257</u>	<u>\$ 164,229</u>	<u>\$ 138</u>	<u>\$ 0</u>	<u>\$ 164,367</u>

**MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MONTGOMERY COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

ACCOUNTS:	Cash			Accounts			Fund
	Balances June 30, 2016	Receipts	Disbursements	Balances June 30, 2017	Receivable June 30, 2017	Payable June 30, 2017	Balances June 30, 2017
Musical	\$ 126	\$ 13,587	13,698	\$ 15	\$ -	\$ -	\$ 15
Student Scholarship Fund	172	1,510	1,000	682	-	-	682
Annual 2011-12	-	-	-	-	-	-	-
Ag-Farm	-	-	-	-	-	-	-
Art	437	10,399	2,847	7,989	-	-	7,989
Art Club	656	1,899	2,555	0	-	-	0
Athletics	2,691	7,720	8,351	2,060	-	-	2,060
Bass Fishing	-	7,798	7,644	154	-	-	154
Boys Bowling	-	2,508	2,387	121	-	-	121
Girls Bowling	-	3,726	3,726	-	-	-	-
Band	1,242	7,290	5,978	2,554	-	-	2,554
Boys Basketball	-	4,303	4,303	-	-	-	-
BETA	58	4,195	3,604	649	-	-	649
Black & Hispanic Achiever	1,853	3,988	4,965	876	-	-	876
Chess	81	1,685	1,724	42	-	-	42
Co-Ed-Y	1,196	16,715	15,639	2,272	-	-	2,272
DECA	-	-	-	-	-	-	-
Social Fund	-	200	191	9	-	-	9
FCA	-	-	-	-	-	-	-
FEA	-	-	-	-	-	-	-
FFA	3,262	7	631	2,638	-	-	2,638
FCCLA	722	783	815	690	-	-	690
French	-	1,225	1,225	-	-	-	-
General	1,143	6,196	4,799	2,540	40	-	2,580
Kids Count (YSC)	5,253	600	2,501	3,352	-	-	3,352
Mock Trial	703	190	705	188	-	-	188
Family & Consumer Science	2,208	1,830	1,198	2,840	-	-	2,840
Horticulture	1,452	-	-	1,452	-	-	1,452
Math Department	-	39	-	39	-	-	39
English Department	250	192	(56)	498	-	-	498
MC2 Field Trip	-	300	284	16	-	-	16
Creative Writing FT	-	1,540	1,440	100	-	-	100
DC Trip	-	-	-	-	-	-	-
AP US History Field Trip	25	466	491	-	-	-	-
JORTC	7,490	6,396	2,567	11,319	-	-	11,319
Operation Dustin Gross	2,427	-	2,427	0	-	-	0
Guidance	4,853	28,084	24,853	8,084	-	-	8,084
Key Club	6	-	-	6	-	-	6
STLP	727	-	-	727	-	-	727
Library	931	-	379	552	-	-	552
Student Vending	1,098	1,074	910	1,262	-	-	1,262
Faculty Vending	490	3,004	2,317	1,177	-	-	1,177
Newspaper	915	574	397	1,092	-	-	1,092
Orchestra	1,150	2,055	2,870	335	-	-	335
Class of 2017	3,962	4,459	8,421	-	-	-	-
Class of 2018	3,820	2,735	-	6,555	-	-	6,555
Class of 2019	3,952	1,832	1,819	3,965	-	-	3,965
Class of 2020	-	1,709	-	1,709	-	-	1,709
Class of 2021	-	652	-	652	-	-	652
Spanish	494	-	-	494	-	-	494
Academic Team	122	275	129	268	-	-	268
Student Council	1,216	-	-	1,216	-	-	1,216
Vocal Music	1,204	420	65	1,559	-	-	1,559
Vocational Agriculture	2,926	-	-	2,926	-	-	2,926
Bobby J. Whitaker-Scholar	-	-	-	-	-	-	-
Raider Team	-	-	-	-	-	-	-
Engineering Class	225	477	130	572	-	-	572
Class of 2016	-	-	-	-	-	-	-
Class of 2012	-	-	-	-	-	-	-
Yearbook	-	-	-	-	-	-	-
Class of 2014	-	-	-	-	-	-	-
S.E.R.V.E.	-	210	-	210	-	-	210
Tri-M	-	-	-	-	-	-	-
Class of 2013	1,669	-	1,669	-	-	-	-
Special Ed	-	90	-	90	-	-	90
MCHS Book Club	389	2,009	1,622	776	-	-	776
Class of 2016	1,640	-	1,640	0	-	-	0
Class of 2010	-	-	-	-	-	-	-
Engineering Club	149	-	-	149	-	-	149
Girls Basketball	-	4,000	3,000	1,000	-	-	1,000
Softball	-	1,000	772	228	-	-	228
Volleyball	-	1,000	-	1,000	-	-	1,000
Swim	-	1,000	927	73	-	-	73
Baseball	-	1,111	1,111	-	-	-	-
Cheer	-	1,000	-	1,000	-	-	1,000
Tennis	-	1,000	721	279	-	-	279
Girls Tennis	-	500	500	-	-	-	-
Archery	-	340	-	340	-	-	340
Football	-	5,263	5,180	83	-	-	83
Girls Soccer	-	-	-	-	-	-	-
TOTALS	\$ 65,387	\$ 173,160	\$ 157,071	\$ 81,476	\$ 40	\$ -	\$ 81,516

MONTGOMERY COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
<i>Passed Through the Kentucky Department of Education</i>			
<i>Department of Education</i>			
<u>Special Education Grants to States</u>			
Special Education_Grants to States	84.027	IDEA-B--3810002-16	\$ 830,035
Total Special Education_Grants to States			<u>830,035</u>
<u>Special Education_Preschool Grants</u>			
Special Education_Preschool Grants	84.173	IDEA-B Preschool--3800002-16	49,526
Total Special Education_Preschool Grants			<u>49,526</u>
<i>Total Special Education Cluster</i>			<u>879,561</u>
<u>Adult Education - Basic Grants to States</u>			
Adult Education - Basic Grants to States	84.002	COMMUNITY BASED WORK TRANSITION PR--371C	50,833
<i>Total Adult Education - Basic Grants to States</i>			<u>50,833</u>
<u>Title I Grants to Local Educational Agencies</u>			
Title I Grants to Local Educational Agencies	84.010	TITLE I -3100102-15	61,604
Title I Grants to Local Educational Agencies	84.010	TITLE I -3100002-16	1,279,851
Title I Grants to Local Educational Agencies	84.010	TITLE I--3100202-15	358,713
Title I Grants to Local Educational Agencies	84.010	TITLE I--3100102-16	52,453
<i>Total Title I Grants to Local Educational Agencies</i>			<u>1,752,621</u>
<u>Migrant Education State Grant Program</u>			
Migrant Education_State Grant Program	84.011	MIGRANT EDUCATION BASIC-- 3110002-16	194,483
<i>Total Migrant Education_State Grant Program</i>			<u>194,483</u>
<u>Career and Technical Education</u>			
Career and Technical Education	84.048	PERKINS --3710006-15	1,626
Career and Technical Education	84.048	VOCATIONAL ED--3710002-16	35,371
<i>Total Career and Technical Education -- Basic Grants to States</i>			<u>36,997</u>
<u>Rural Education</u>			
Rural Education	84.358	RURAL & LOW INCOME--3140002- 16	82,444
<i>Total Rural Education</i>			<u>82,444</u>

The accompanying notes are an integral part of this schedule

MONTGOMERY COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
<hr/>			
English Language Acquisition State Grants			
English Language Acquisition State Grants	84.365	TITLE III, LEP--3300002-16	10,510
<i>Total English Language Acquisition State Grants</i>			<u>10,510</u>
Improving Teacher Quality State Grants			
Improving Teacher Quality State Grants	84.367	TITLE II-3230002-15	47,304
Improving Teacher Quality State Grants	84.367	TITLE II-323002-16	142,711
<i>Total Improving Teacher Quality State Grants</i>			<u>190,015</u>
<i>Total Department of Education</i>			<u><u>3,197,464</u></u>
Department of Defense			
<hr/>			
ROTC	12.000	ROTC--504B	68,024
<i>Total Defense of Defense</i>			<u>68,024</u>
United States Department of Agriculture			
National School Lunch Program	10.555	COMMODITIES-4002833	161,526
School Breakfast Program	10.553	7760005-16	106,315
School Breakfast Program	10.553	7760005-17	423,406
Summer Feeding Program	10.559	7690024-16	2,094
Summer Feeding Program	10.559	7690024-17	170
Summer Feeding Program	10.559	7740023-16	38,767
Summer Feeding Program	10.559	7740023-17	1,654
Child and Adult Care Program	10.558	7790021-16	2,312
Child and Adult Care Program	10.558	7790021-16	4,760
National School Lunch Program	10.555	7750002-16	320,147
National School Lunch Program	10.555	7750002-17	1,229,971
<i>Total Cash Assistsnce</i>			<u>2,129,595</u>
Total National School Lunch Program			<u>2,291,121</u>
<i>Total United States Department of Agriculture</i>			<u><u>2,291,121</u></u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 5,556,609</u></u>

The accompanying notes are an integral part of this schedule

**MONTGOMERY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Montgomery County School District under the programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the Montgomery County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

- 2) Montgomery School District has not applied an indirect cost rate.

NOTE 3 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2017, the District received food commodities totaling \$161,526.

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. MCCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

JUSTIN B. NICHOLS, CPA
SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Montgomery County School District
Mt. Sterling, KY 40353

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, as defined in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky public School District's Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Montgomery County School District's basic financial statements, and have issued our report thereon dated October 3, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management for the District in a separate letter dated October 3, 2017.

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.

Summers, McCrary & Sparks, PSC

Lexington, KY
October 3, 2017

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. MCCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

JUSTIN B. NICHOLS, CPA
SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Kentucky State Committee for School District Audits
Members of the Board of Education
Montgomery County School District
Mt. Sterling, KY 40353

Report on Compliance for Each Major Federal Program

We have audited the Montgomery County School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School District's Audit Contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2017.

Report on Internal Control over Compliance

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

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

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Lexington, KY
October 3, 2017

**MONTGOMERY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be material
weakness? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards

Internal control over majority programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be material
weakness(es)? yes X none reported

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

Any audit findings disclosed that are
required to be report in accordance
with 2 CFR section 200.516 (a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	Title II, Improving Teacher Quality
84.010	Title 1
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish
between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**MONTGOMERY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings

No findings in the current year.

Section III – Federal Award Findings and Questioned Costs

No findings in the current year.

**MONTGOMERY COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Financial Statement Findings

No findings in the prior year.

Federal Award Findings and Questioned Costs

No findings in the prior year.

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. MCCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

JUSTIN B. NICHOLS, CPA
SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992

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

In planning and performing our audit of the financial statements of Montgomery County School District for the year ended June 30, 2017, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several 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. This letter does not affect our report dated October 3, 2017 on the financial statements of the Montgomery County School District.

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

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
October 3, 2017

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

BOARD

Comment: During testing of payroll we noted that Form I-9, Employee Eligibility Verification was missing for several employees.

Response: After review of the files indicated that the employees hired in or before 2011 did not have all proper paperwork, including the I-9 Employee Eligibility Verification, an action plan was put in place to resolve the issue. First and foremost, we have worked to get each of the missing forms completed for the employees. Additionally, we have started the process of double checking each employee file to make sure we have all I-9s, as well as other critical paperwork. Every employee file will be checked for completion against a list of MUNIS employees on payroll. Going forward, we have started including it with the new hire packet to ensure we have it prior to completion of the hiring process. We also now keep the Form I-9 in the individual employee file instead of a separate file with all I-9s. These changes in process appear to be working as the ones missing are all older files.

Comment: During testing of cash disbursements it was noted that several purchase orders were not properly approved.

Response: We will have accounting staff ensure there are correct dates and approvals. We have worked closely with the new employee whom makes purchases over 2016-17 about purchasing timelines and approvals. We have seen much improvement.

Comment: While performing audit procedures over capital assets it was noted that assets were capitalized at the budgeted amount as opposed to actual cost, and had been capitalized prior to project close-out.

Response: Capital assets will only be assigned a fixed asset when the district receives the BG-5 at the completion of the construction/renovation project. The amount of the asset assigned to the project will be the actual dollar amount spent per the BG-5. When the BG-5 is signed at completion of the project by the Superintendent it will be sent to the Finance Director and then the Asset Manager to be filed and to be completed by assigning it an asset.

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

SCHOOL ACTIVITY FUNDS

MONTGOMERY COUNTY HIGH SCHOOL

Comment: During our review of cash receipts it was noted that several Multiple Receipt Forms (F-SA-6) did not contain a signature from the student remitting the funds. We recommended the bookkeeper review the "Receipts" section of the "Redbook", which states that student third grade and above must sign the Multiple Receipt Form (F-SA-6).

Response: I sent out an email to all principals to forward on to their staff reminding them that all students 3rd grade and above must sign their own names on the multiple receipt form. Our account clerks and I try to make sure each student 3rd grade and higher have signed their own name and if it looks as if they haven't, we send the form back to the teacher to have them re-do and resubmit the form. We will try to monitor this more closely moving forward.

McNABB MIDDLE SCHOOL

Comment: During our review of cash receipts we noted that several Multiple Receipt Forms (F-SA-6) did not identify if the receipt was for the activity fund or district fund. We recommended the bookkeeper review the "Multiple Receipt Form" in the "Redbook", which shows that the fund must be identified on the Multiple Receipt Form (F-SA-6).

Response: The multiple receipt form that our district created has all of the same information as the "Multiple Receipt Form" from "Redbook". In addition, our teachers can use our multiple receipt form to turn in money that is deposited into our district account. While some of the check boxes were not marked "Activity", all monies turned in for activity funds were correctly deposited and receipted into the activity fund. As the person who enters all of these receipts, I will make sure moving forward to ensure the boxes are marked and clearly labeled "Activity".

MAPLETON ELEMENTARY SCHOOL

Comment: During our review of cash receipts we noted that several Multiple Receipt Forms (F-SA-6) did not identify if the receipt was for the activity fund or district fund. We recommended the bookkeeper review the "Multiple Receipt Form" in the "Redbook", which shows that the fund must be identified on the Multiple Receipt Form (F-SA-6).

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

Response: The multiple receipt form that our district created has all of the same information as the "Multiple Receipt Form" from "Redbook". In addition, our teachers can use our multiple receipt form to turn in money that is deposited into our district account. While some of the check boxes were not marked "Activity", all monies turned in for activity funds were correctly deposited and receipted into the activity fund. As the person who enters all of these receipts, I will make sure moving forward to ensure the boxes are marked and clearly labeled "Activity".

MT. STERLING ELEMENTARY SCHOOL

Comment: During our review of cash receipts we noted that several Multiple Receipt Forms (F-SA-6) did not identify if the receipt was for the activity fund or district fund. We recommended the bookkeeper review the "Multiple Receipt Form" in the "Redbook", which shows that the fund must be identified on the Multiple Receipt Form (F-SA-6).

Response: The multiple receipt form that our district created has all of the same information as the "Multiple Receipt Form" from "Redbook". In addition, our teachers can use our multiple receipt form to turn in money that is deposited into our district account. While some of the check boxes were not marked "Activity", all monies turned in for activity funds were correctly deposited and receipted into the activity fund. As the person who enters all of these receipts, I will make sure moving forward to ensure the boxes are marked and clearly labeled "Activity".

Comment: During our review of cash receipts it was noted that several Multiple Receipt Forms (F-SA-6) did not contain a signature from the student remitting the funds. We recommended the bookkeeper review the "Receipts" section of the "Redbook", which states that students third grade and above must sign the Multiple Receipt Form (F-SA-6).

Response: I sent out an email to all principals to forward on to their staff reminding them that all students 3rd grade and above must sign their own names on the multiple receipt form. Our account clerks and I try to make sure each student 3rd grade and higher have signed their own name and if it looks as if they haven't, we send the form back to the teacher to have them re-do and resubmit the form. We will try to monitor this more closely moving forward.

CAMARGO ELEMENTARY SCHOOL

Any exceptions noted in testing appeared to be isolated incidents only and were communicated to management.

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

MONTGOMERY COUNTY INTERMEDIATE SCHOOL

Any exceptions noted in testing appeared to be isolated incidents only and were communicated to management.

STATUS OF PRIOR YEAR COMMENTS

BOARD

- Previously, while testing cash disbursements, we found several purchase orders dated after the date of the associated invoice. This finding was repeated in the current year.
- Previously, during the audit process, we had to make material adjustments to the financial statements, because the client did not have time to post the journal entries before submitting the AFR to KDE after year end. No similar finding occurred in the current year.
- Previously, while testing of payroll, we found an instance where an employee did not have a completed W-4 on file, and several instances of employees' completed I-9 not on file. This finding was repeated in the current year.
- Previously, while performing audit procedures over cash we found the June 30, 2016 bank reconciliation did not reconcile to the general ledger. No similar finding occurred in the current year.
- Previously, while performing audit procedures over capital assets we found that land had been depreciated. No similar finding occurred in the current year.

MONTGOMERY COUNTY HIGH SCHOOL

- Previously, during our review of cash receipts, we found multiple instances where students had not signed the Multiple Receipt Form (F-SA-6). We recommended the principal and bookkeeper review the Multiple Receipt Form (F-SA-6), which states that students in third grade and above must sign the form as they turn in money. This ensures that students are providing their own signatures on the form and that the teacher or person remitting the money is not writing in the student's name. This finding was repeated in the current year.

McNABB MIDDLE SCHOOL

- Previously, during our review of cash receipts, we found multiple instances where students had not signed the Multiple Receipt Form (F-SA-6). We recommended the principal and bookkeeper review the Multiple Receipt Form (F-SA-6), which states that students in third grade and above must sign the form as they turn in money. This ensures that students are providing their own signatures on the form and that the teacher or person remitting the money is not writing in the student's name.

**MONTGOMERY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

- Previously, during our review of cash disbursements, we found a purchase that exceeded the approved amount on the purchase order. We recommended the principal and bookkeeper review the “Purchasing” section of the “Redbook”, item no. 5, which states that the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. The expense should not exceed the approved amount on the purchase order. No similar finding occurred in the current year.