BATH COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

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 Bath County School District (the "District") as of June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Bath County School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012, on our consideration of Bath County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7 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 the appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and 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 any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath County School District's financial statements. The accompanying combining and individual non-major fund financial statements contained on pages 35-42 and schedule of expenditures of federal awards contained on pages 43-44 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 taken as a whole.

Kelley, Galloway & Company, PSC

October 29, 2012

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2012

As management of the Bath County School District ("the 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, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately $4,363,794 and the ending balance was approximately $5,134,291, a increase of approximately $770,497 for the year.

- The General Fund had $14,187,494 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was $14,002,128 in General Fund expenditures.

- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by $638,326 during the current fiscal year.

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 assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8 and 9 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 funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The primary proprietary fund is our 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 10 through 20 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 21 - 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately $11.8 million as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Assets for the period ending June 30, 2012

	2012	2011
Current Assets	$ 5,491,385	$ 4,972,262
Noncurrent Assets	22,196,204	22,563,332
Total Assets	$ 27,687,589	$ 27,535,594
Current Liabilities	$ 1,382,163	$ 1,453,973
Noncurrent Liabilities	14,522,050	15,176,639
Total Liabilities	15,904,213	16,630,612
Net Assets		
Investment in capital assets (net of debt)	6,853,244	6,582,046
Restricted	1,202,235	394,945
Unreserved Fund Balance	3,727,897	3,927,991
Total Net Assets	11,783,376	10,904,982
Total liabilities and net assets	$ 27,687,589	$ 27,535,594

Comments on Budget Comparisons

- The District's total governmental revenues for the fiscal year ended June 30, 2012, net of interfund transfers were $19,296,498, compared with $18,991,993 in 2011. This increase is a result of an increase in tax receipts in the current year.

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being $2.2 million less than budget or approximately 15.7%.

- The total cost of all programs and services for governmental activities was $18,593,503, compared with $18,128,216 in 2011. This increase is due to cost of living increases.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2012, with comparison to 2011.

	2012	2011
Revenues:		
Local Revenue Sources	$ 2,995,209	$ 2,784,614
State and Federal Revenue Sources	17,965,740	17,649,815
Total Revenues	20,960,949	20,434,429
Expenses:		
Instruction	10,139,394	10,313,682
Student Support Services	941,500	825,502
Instructional Support	835,198	1,007,318
District Administration	961,734	883,865
School Administration	1,028,182	1,040,280
Business and Other Support Services	407,454	288,100
Plant Operations	1,732,970	1,825,828
Student Transportation	1,376,032	1,390,450
Food Service Operations	1,309,066	1,234,720
Child Care Services	182,195	106,992
Community Services	311,210	318,740
Debt service	857,620	234,451
Total Expenses	20,082,555	19,469,928
Revenues in Excess of Expenses	$ 878,394	$ 964,501

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 74% and federal funding of 13% of total revenue. Local revenues make up 13% of total revenue (14% in 2011).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 7%, Maintenance & Operations 9%, and Business Functions 2%.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately $787,716 in contingency (5.06%). The general fund cash balance for beginning the next fiscal year is $3,908,881.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local levels and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent year budgets.

Questions regarding this report should be directed to the Superintendent or to the Finance Officer at (606) 674-6314.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 4,532,566	$ 601,725	$ 5,134,291
Receivables (net of allowances for uncollectibles):			
Taxes	19,341	-	19,341
Other	37,574	-	37,574
Intergovernmental - state	277,983	-	277,983
Inventories	-	22,196	22,196
Capital assets, not being depreciated	518,317	-	518,317
Capital assets, being depreciated, net	21,194,844	483,043	21,677,887
Total assets	26,580,625	1,106,964	27,687,589
Liabilities			
Accounts payable	13,250	148	13,398
Deferred revenue	322,963	-	322,963
Portion due or payable within one year:			
Debt obligations	909,266	-	909,266
Interest payable	136,536	-	136,536
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	14,433,694	-	14,433,694
Accrued sick leave	88,356	-	88,356
Total liabilities	15,904,065	148	15,904,213
Net Assets			
Invested in capital assets, net of related debt	6,370,201	483,043	6,853,244
Restricted for:			
Capital projects	578,462	-	578,462
Other purposes	-	623,773	623,773
Unrestricted	3,727,897	-	3,727,897
Total net assets	$ 10,676,560	$ 1,106,816	$ 11,783,376

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government:							
Governmental activities:							
Instruction	$ 10,139,394	$ -	$ 2,145,995	$ -	$ (7,993,399)	$ -	$ (7,993,399)
Support services:							
Students	941,500	-	141,233	-	(800,267)	-	(800,267)
Instructional staff	835,198	-	489,292	-	(345,906)	-	(345,906)
District administration	961,734	-	5,811	-	(955,923)	-	(955,923)
School administration	1,028,182	-	25,666	-	(1,002,516)	-	(1,002,516)
Business and other support services	407,454	-	480	-	(406,974)	-	(406,974)
Operation and maintenance of plant	1,732,970	-	23,488	-	(1,709,482)	-	(1,709,482)
Student transportation	1,376,032	-	159,869	-	(1,216,163)	-	(1,216,163)
Food service	2,209	-	1,791	-	(418)	-	(418)
Community services	311,210	-	294,941	-	(16,269)	-	(16,269)
Debt service	857,620	-	61,275	1,309,399	513,054	-	513,054
Total governmental activities	18,593,503	-	3,349,841	1,309,399	(13,934,263)	-	(13,934,263)
Business-type activities:							
Food service	1,306,857	246,609	1,173,744	-	-	113,496	113,496
Child Care	182,195	117,053	62,400	-	-	(2,742)	(2,742)
Total business-type activities	1,489,052	363,662	1,236,144	-	-	110,754	110,754
Total primary government	$ 20,082,555	$ 363,662	$ 4,585,985	$ 1,309,399	$ (13,934,263)	$ 110,754	$ (13,823,509)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					$ 1,317,061	$ -	$ 1,317,061
Motor vehicle					241,223	-	241,223
Utilities					574,954	-	574,954
Intergovernmental revenues:							
State					12,184,974	-	12,184,974
Investment earnings					300,768	6,799	307,567
Gain on sale of assets					57,846	-	57,846
Other local revenues					18,278	-	18,278
Total general revenues and transfers					14,695,104	6,799	14,701,903
Change in net assets					760,841	117,553	878,394
Net assets, June 30, 2011					9,915,719	989,263	10,904,982
Net assets, June 30, 2012					$ 10,676,560	$ 1,106,816	$ 11,783,376

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

BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 3,908,881	$ 45,223	$ 578,462	$ 4,532,566
Receivables (net of allowances for uncollectibles):				
Property taxes	19,341	-	-	19,341
Other	37,574	-	-	37,574
Intergovernmental - state	-	277,983	-	277,983
Intergovernmental - federal	-	-	-	-
Total assets	$ 3,965,796	$ 323,206	$ 578,462	$ 4,867,464
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 13,007	$ 243	$ -	$ 13,250
Cash deficit balance	-	-	-	-
Deferred revenue	-	322,963	-	322,963
Total liabilities	13,007	323,206	-	336,213
Fund balances:				
Assigned	-	-	-	-
Restricted	35,898	-	578,462	614,360
Non-spendable	-	-	-	-
Unassigned	3,916,891	-	-	3,916,891
Committed	-	-	-	-
Total fund balances	3,952,789	-	578,462	4,531,251
Total liabilities and fund balances	$ 3,965,796	$ 323,206	$ 578,462	$ 4,867,464

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

BATH COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Fund balances—total governmental funds	$ 4,531,251
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,713,161
Accrued sick leave is not due and payable in the current period and therefore, not reported in this fund.	(88,356)
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(15,479,496)
Net assets of governmental activities	$ 10,676,560

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes -				
Property	$ 1,116,057	$ -	$ 201,004	$ 1,317,061
Motor vehicles	241,223	-	-	241,223
Utilities	574,954	-	-	574,954
Tuition and fees	-	-	-	-
Interest income	52,008	201,832	46,928	300,768
Other local revenues	18,278	60,307	-	78,585
Intergovernmental - State	12,135,122	875,070	1,309,399	14,319,591
Intergovernmental - Indirect federal	26,222	2,414,464	-	2,440,686
Intergovernmental - Direct federal	23,630	-	-	23,630
Total revenues	14,187,494	3,551,673	1,557,331	19,296,498
Expenditures:				
Current:				
Instruction	8,019,755	2,383,726	-	10,403,481
Support services:				
Students	770,814	141,233	-	912,047
Instructional staff	308,076	489,292	-	797,368
District administration	909,139	5,811	-	914,950
School administration	998,649	25,666	-	1,024,315
Business and other support services	405,756	480	-	406,236
Operation and maintenance of plant	1,364,088	23,488	-	1,387,576
Student transportation	1,064,521	159,869	-	1,224,390
Food service	418	1,791	-	2,209
Community services	15,055	294,941	-	309,996
Facilities acquisition and construction	-	-	18,240	18,240
Debt service	145,857	61,275	1,319,676	1,526,808
Total expenditures	14,002,128	3,587,572	1,337,916	18,927,616
Excess (deficiency) of revenues over expenditures	185,366	(35,899)	219,415	368,882
Other financing sources (uses):				
Bond proceeds	-	-	1,100,000	1,100,000
Payment to bond escrow agent	-	-	(1,100,000)	(1,100,000)
Gain on sale of equipment	68,927	-	-	68,927
Transfers in	-	35,899	650,858	686,757
Transfers out	(37,138)	-	(650,858)	(687,996)
Total other financing sources and uses	31,789	35,899	-	67,688
Net change in fund balances	217,155	-	219,415	436,570
Fund balances, June 30, 2011	3,735,634	-	359,047	4,094,681
Fund balances, June 30, 2012	$ 3,952,789	$ -	$ 578,462	$ 4,531,251

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

BATH 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, 2012

Net change in fund balances—total governmental funds		$ 436,570
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	639,038	
Adjustment to gain on disposal of assets	(11,081)	
Depreciation expense	(970,083)	(342,126)
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:		
Long-term portion of accrued sick leave		(2,791)
Interest payable		30,862
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.		638,326
Change in net assets of governmental activities		$ 760,841

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	$ 568,961	$ 32,764	$ 601,725
Receivables (net of allowances for uncollectibles)			
Intergovernmental - federal	-	-	-
Inventories	22,196	-	22,196
Total current assets	591,157	32,764	623,921
Noncurrent assets:			
Capital assets, net of accumulated depreciation	483,043	-	483,043
Total noncurrent assets	483,043	-	483,043
Total assets	$ 1,074,200	$ 32,764	$1,106,964
Liabilities			
Current liabilities:			
Accounts payable	$ 148	$ -	$ 148
Total current liabilities	148	-	148
Total liabilities	148	-	148
Net Assets			
Invested in capital assets, net of related debt	483,043	-	483,043
Restricted	591,009	32,764	623,773
Total net assets	1,074,052	32,764	1,106,816
Total liabilities and net assets	$ 1,074,200	$ 32,764	$ 1,106,964

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Operating revenues:			
Lunchroom sales	$ 246,609	$ -	$ 246,609
Tuition from individuals	-	117,053	117,053
Revenue from local sources	55	43,175	43,230
Revenue from state sources (on-behalf)	76,305	19,225	95,530
Total operating revenues	322,969	179,453	502,422
Operating expenses:			
Salaries and wages	360,765	120,406	481,171
Employee benefits	168,501	47,990	216,491
Materials and supplies	735,284	13,349	748,633
Depreciation	31,231	-	31,231
Other operating expenses	11,076	450	11,526
Total operating expenses	1,306,857	182,195	1,489,052
Operating income (loss)	(983,888)	(2,742)	(986,630)
Nonoperating revenues :			
Federal grants	1,010,962	-	1,010,962
Investment income	6,799	-	6,799
Donated commodities	65,873	-	65,873
State grants	20,549	-	20,549
Total nonoperating revenue	1,104,183	-	1,104,183
Increase (decrease) in net assets	120,295	(2,742)	117,553
Net assets, June 30, 2011	953,757	35,506	989,263
Net assets, June 30, 2012	$ 1,074,052	$ 32,764	$1,106,816

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	$ 246,609	$ -	$ 246,609
Tuition	-	117,053	117,053
Other revenues	76,360	62,400	138,760
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(691,231)	(13,349)	(704,580)
Payments to employees	(529,266)	(168,396)	(697,662)
Other payments	(10,891)	(566)	(11,457)
Net cash provided by (used for) operating activities	(908,419)	(2,858)	(911,277)
Cash flows from noncapital financing activities:			
Government grants	1,031,511	-	1,031,511
Net cash provided by noncapital and related financing activities	1,031,511	-	1,031,511
Cash flows from capital and related financing activities:			
Purchases of capital assets	(6,414)	-	(6,414)
Net cash used for capital and related financing activities	(6,414)	-	(6,414)
Cash flows from investing activities:			
Interest received on investments	6,799	-	6,799
Net cash provided by investing activities	6,799	-	6,799
Net increase (decrease) in cash and cash equivalents	123,477	(2,858)	120,619
Cash and cash equivalents, June 30, 2011	445,484	35,622	481,106
Cash and cash equivalents, June 30, 2012	$ 568,961	$ 32,764	$ 601,725
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	$ (983,888)	$ (2,742)	$ (986,630)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	31,231	-	31,231
Donated commodities	65,873	-	65,873
Loss on disposal of assets	185	-	185
Change in assets and liabilities:			
Inventory	(12,962)	-	(12,962)
Accounts payable	(8,858)	(116)	(8,974)
Net cash provided by (used for) operating activities	$ (908,419)	$ (2,858)	$ (911,277)
Non-cash items:			
Donated commodities	$ 65,873	$ -	$ 65,873
On-behalf payments	76,305	19,225	95,530

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Trust Funds	Activity Funds
Assets		
Cash and cash equivalents	$ 28,209	$ 186,909
Accounts receivable	-	-
Total assets	28,209	186,909
Liabilities		
Accounts payable	-	-
Interfund payable	-	-
Due to students	-	186,909
Total liabilities	-	186,909
Net assets held in trust	$ 28,209	$ -

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Trust Funds
Additions -	
Interest income	$ -
Other local revenues	961
Transfers In	1,239
	2,200
Deductions -	
Operating expenses	-
Benefits paid	2,200
	2,200
Change in net assets	-
Net assets, June 30, 2011, as restated	28,209
Net assets, June 30, 2012	$ 28,209

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes -				
Property	$ 890,000	$ 890,000	$ 1,116,057	$ 226,057
Motor vehicles	200,000	200,000	241,223	41,223
Utilities	500,000	500,000	574,954	74,954
Tuition and fees	-	-	-	-
Interest income	50,000	50,000	52,008	2,008
Other local revenues	1,500	1,500	18,278	16,778
Intergovernmental - State	9,015,300	9,015,300	9,382,795	367,495
Intergovernmental - Indirect federal	-	-	26,222	26,222
Intergovernmental - Direct federal	30,000	30,000	23,630	(6,370)
Total revenues	10,686,800	10,686,800	11,435,167	748,367
Expenditures:				
Current:				
Instruction	7,034,614	7,173,902	6,133,232	1,040,670
Support services:				
Students	603,147	578,147	639,887	(61,740)
Instructional staff	289,818	282,087	234,117	47,970
District administration	1,130,585	1,121,915	812,276	309,639
School administration	819,527	820,823	768,914	51,909
Business and other support services	236,449	238,564	280,775	(42,211)
Operation and maintenance of plant	1,714,952	1,718,530	1,262,632	455,898
Student transportation	1,097,052	1,257,052	958,793	298,259
Food service	-	-	418	(418)
Community services	-	-	12,900	(12,900)
Debt service	300,000	300,000	145,857	154,143
Contingency	411,156	750,000	-	750,000
Total expenditures	13,637,300	14,241,020	11,249,801	2,991,219
Excess (deficiency) of revenues over expenditures	(2,950,500)	(3,554,220)	185,366	3,739,586
Other financing sources (uses):				
Gain on sale of equipment	500	500	68,927	68,427
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(37,138)	12,862
Total other financing sources and uses	(49,500)	(49,500)	31,789	81,289
Net change in fund balances	(3,000,000)	(3,603,720)	217,155	3,820,875
Fund balances, June 30, 2011	3,000,000	3,603,720	3,735,634	131,914
Fund balances, June 30, 2012	$ -	$ -	$ 3,952,789	$ 3,952,789
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			$ 2,752,327	
On-behalf payments:				
Instruction			(1,886,523)	
Support services:				
Student support			(130,927)	
Instructional staff support			(73,959)	
District administration			(96,863)	
School administration			(229,735)	
Business and other support services			(124,981)	
Operation and maintenance of plant			(101,456)	
Student transportation			(105,728)	
Community services			(2,155)	
Fund balance, June 30, 2012 (GAAP basis)			$ 3,952,789	

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Interest income	$ -	$ 172,883	$ 201,832	$ 28,949
Other local revenues	-	78,011	60,307	(17,704)
Intergovernmental - State	1,059,855	864,923	875,070	10,147
Intergovernmental - Indirect federal	1,770,228	1,831,220	2,414,464	583,244
Intergovernmental - Direct federal	-	-	-	-
Total revenues	2,830,083	2,947,037	3,551,673	604,636
Expenditures:				
Current:				
Instruction	1,952,658	2,174,763	2,383,726	(208,963)
Support services:				
Students	176,124	95,652	141,233	(45,581)
Instructional staff	380,269	328,825	489,292	(160,467)
District administration	-	-	5,811	(5,811)
School administration	-	-	25,666	(25,666)
Business and other support services	4,392	-	480	(480)
Operation and maintenance of plant	-	34,012	23,488	10,524
Student transportation	48,520	30,418	159,869	(129,451)
Food service	-	1,000	1,791	(791)
Community services	268,120	271,092	294,941	(23,849)
Debt service	-	61,275	61,275	-
Total expenditures	2,830,083	2,997,037	3,587,572	(590,535)
Excess (deficiency) of revenues over expenditures	-	(50,000)	(35,899)	14,101
Other financing sources (uses):				
Transfers in	-	50,000	35,899	(14,101)
Transfers out	-	-	-	-
Total other financing sources and uses	-	50,000	35,899	(14,101)
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2011	-	-	-	-
Fund balances, June 30, 2012	$ -	$ -	$ -	$ -

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

(1) REPORTING ENTITY

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

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. Copies of this organization's financial statements may be obtained from the Superintendent or the District's Finance Officer Jo Brewer at 405 West Main Street, Owingsville, Kentucky 40360.

Bath County Board of Education Finance Corporation - On November 29, 1988, the Bath County, Kentucky, Board of Education resolved to authorize the establishment of the Bath County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Bath County Board of Education also comprise the Corporations' Board of Directors.

The financial statements of the following entity are not included in the accompanying financial statements.

C.C. Chenault Memorial Trust

The Trust was created to establish agricultural programs for the District. The District receives a quarterly payment from the trust for its agricultural programs. The District received $230,565 in quarterly payments in the current year and spent $200,858 and had a carryover balance of $37,393 to FY 2013. The Trust maintains separate accounting records and is not governed or managed by the District.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Bath County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

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 statements-provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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-provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

(A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund,

and any fund balances are considered as resources available for use. This is a major fund of the District.

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

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

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

D. Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

B. The Child Care Fund and Preschool Fund are used to account for day care type activities.

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

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

The Trust Fund is a scholarship fund. The principal and interest earned may be used for scholarships to Bath County High School students.

Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue - Deferred 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 deferred revenue. 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.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were $.367 per $100 valuation for real property, $.367 per $100 valuation for business personal property and $.462 per $100 valuation for motor vehicles. The assessed value of property upon which the levy for the 2012 fiscal year was based, was $336,617,688.

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets 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 assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars ($1,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net assets. The District has set aside a reserve in the amount of $35,898 for accumulated sick leave as permitted by KRS.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (14) for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than $50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased.

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 noncurrent 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, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When committed, assigned and unassigned resources are available for use, it is the District's policy to use committed and assigned resources first, then unassigned resources as they are needed.

Net Assets

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

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

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance,* that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and

thereafter. The District has not completed the process of the evaluation of GASB No. 62, but does not expect it to have an impact on its financial statements.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements,* as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. The District has not completed the process of evaluating GASB No. 63, but it is expected to change only the formatting and naming of its statement of position and components thereof, with no overall financial impact.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At year-end, the carrying amount of the District's total cash and cash equivalents was $5,349,409 and the related bank balances totaled $6,750,443. Of the total cash balance, $441,599 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

Breakdown per financial statements:

Governmental funds	$ 4,532,566
Proprietary funds	601,725
Trust and Agency funds	215,118
	$ 5,349,409

(5) BONDED DEBT AND LEASE OBLIGATIONS

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

Issue Date	Proceeds	Rates
1996	$ 185,000	5.00% – 5.70%
1998	2,195,000	4.00% – 4.25%
2001	515,000	2.60% – 4.25%
2003	955,000	1.10% – 3.15%
2004	850,000	2.00% – 5.00%
2004	123,315	1.00% – 3.15%
2006	132,173	3.30% – 4.00%
2005	5,665,000	3.00% – 4.25%
2006	208,738	3.50%–3.875%
2008	705,000	3.30% – 4.30%
2008	159,075	2.40% – 4.00%
2008	8,975,000	2.30% – 4.00%
2009	120,186	2.00% – 3.90%
2012	166,886	2.00% – 2.63%
2012	1,100,000	1.10% – 2.35%

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

On May 3, 2012, the Bath County School District issued $1,100,000 in Refunding Revenue Bonds with an average interest rate of 1.8% to advance refund $505,000 of outstanding 2004 Revenue Bonds with an average interest rate of 4.763% and $510,000 of outstanding 1998 Revenue Bonds with an average interest rate of 4.231%. The net proceeds of $1,067,190 (after payment of $23,363 of issuance costs, $11,000 of discount on bonds, plus $1,553 in accrued interest) were used to provide $864 to open the Bond and Redemption Fund for the 1998 and 2004 Issue, and $1,066,326 to refund the 1998 and 2004 Bond Issue. As a result, $1,015,000 of the 1998 and 2004 Series Bonds are considered to be defeased.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The District advance refunded $1,015,000 of the 1998 and 2004 Series Bonds to reduce its total debt service payments over the next 13 years by approximately $77,515 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of 7.608% or $37,477 on the 2004 Revenue Bonds and 6.658% or $32,542 on the 1998 Revenue Bonds.

In 1996, 1998, 2004, 2005, 2008, and 2012, 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 bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as follows:

Year	Kentucky School Facilities Construction Commission Principal	Interest	Bath County School District Principal	Interest	Total
2013	$ 417,599	$ 261,025	$ 491,667	$ 284,659	$ 1,454,950
2014	424,205	251,350	480,733	269,289	1,425,577
2015	435,812	237,771	479,349	253,324	1,406,256
2016	446,946	224,789	491,917	237,050	1,400,702
2017	443,558	211,124	496,609	220,065	1,371,356
2018-2022	2,370,062	832,279	2,559,503	829,716	6,591,560
2023-2027	2,507,138	387,915	2,567,862	302,265	5,765,180
2028	498,135	20,075	231,865	9,275	759,350
	$7,543,455	$2,426,328	$ 7,799,505	$ 2,405,643	$ 20,174,931

Following are changes in long-term debt:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
September 1996 issue	$ 70,000	$ -	$ 10,000	$ 60,000
September 1998 issue	570,000	-	570,000	-
November 2001 KISTA	60,000	-	60,000	-
April 2003 KISTA	44,139	-	21,632	22,507
June 2004	620,000	-	540,000	80,000
January 2004 KISTA	35,821	-	13,140	22,681
August 2005 series	5,405,000	-	270,000	5,135,000
January 2006 KISTA	66,880	-	13,464	53,416
September 2006 KISTA	129,119	-	20,710	108,409
January 2008 series	630,000	-	25,000	605,000
January 2008 KISTA	110,942	-	15,094	95,848
May 2008 series	8,145,000	-	335,000	7,810,000
January 2009 series	94,385	-	11,172	83,213
January 2012 KISTA	-	166,886	-	166,886
May 2012 series	-	1,100,000	-	1,100,000
Accumulated unpaid sick leave benefits	85,565	2,791	-	88,356
Totals	$ 16,066,851	$ 1,269,677	$ 1,905,212	$ 15,431,316

(6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land	$ 518,317	$ -	$ -	$ 518,317
Land improvements	949,651	-	-	949,651
Buildings and improvements	25,821,345	-	113,617	25,707,728
Technology equipment	1,421,585	429,333	111,734	1,739,184
General equipment	733,182	80,927	7,250	806,860
Vehicles	2,752,834	128,778	137,528	2,744,084
Totals	32,196,914	639,038	370,129	32,465,823
Less: accumulated depreciation				
Land improvements	755,065	28,777	-	783,842
Buildings and improvements	6,190,995	528,989	108,680	6,611,303
Technology equipment	912,391	203,336	106,484	1,009,244
General equipment	454,822	46,910	6,356	495,376
Vehicles	1,828,354	162,071	137,528	1,852,897
Total accumulated depreciation	10,141,627	970,083	359,048	10,752,662

Governmental Activities				
Capital Assets - Net	$ 22,055,287	$ (331,045)	$ (11,081)	$ 21,713,161
Business-Type Activities				
Buildings and improvements	$ 308,000	$ -	$ -	$ 308,000
Food service and equipment	489,466	6,414	-	495,880
Technology equipment	6,915	-	834	6,081
	804,381	6,414	834	809,961
Less: accumulated depreciation				
Food service equipment	18,993	6,160	-	25,153
Food service and equipment	272,432	24,236	-	296,668
Technology equipment	4,911	835	649	5,097
	296,336	31,231	649	326,918
Business-Type Activities				
Capital Assets - Net	$ 508,045	$ (24,817)	$ 185	$ 483,043

Depreciation expense was allocated to governmental functions as follows:

Instruction	$ 350,374
Student support services	29,453
Instructional staff support services	37,830
District administration	46,784
School administration	3,867
Business support services	1,218
Plant operation & maintenance	345,394
Student transportation	151,642
Adult education	2,307
Community service activities	1,214
	$ 970,083

(7) COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2012, as follows:

Year ending	
2013	$ 53,479
Total minimum rentals	$ 53,479

(8) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

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

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

Funding Policy – Contribution rates are established by KRS. Members hired before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS and members hired after July 1, 2008 contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

The District's total payroll for the year was $11,167,539. The payroll for employees covered under KTRS was $8,460,650. For the year ended June 30, 2012, the Commonwealth of Kentucky contributed $932,561 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2012, were $193,225, which represents those employees covered by federal programs.

Medical Insurance Plan

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

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain 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, two and one-half percent (2.5%) of the gross annual payroll of members hired before July 1, 2008 is contributed. One and one-fourth percent (1.25%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members hired after July 1, 2008 contribute an additional .50% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

B. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.96% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was $11,167,539. The payroll for employees covered under CERS was $2,706,889. The District's contributions to CERS for the year ending June 30, 2012, 2011, and 2009 were $456,460, $419,003, and $390,434, respectively, equal to the required contributions for the year.

(8) 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 is covered through the purchase of commercial insurance. The District had purchased certain policies, which are retrospectively rated, which include worker's compensation insurance.

(9) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District 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 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 (24) 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 (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) 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 three fiscal years.

(11) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is managements' opinion that the District is in compliance with the COBRA requirements.

(12) RESTATEMENT

During the year, it was determined that a certificate of deposit that was donated in a prior year had not been recorded in the Trust Fund. The earnings from the certificate of deposit are to be used to fund a scholarship annually and the original amount donated of $25,000 was to be maintained in perpetuity. As a result, the beginning net assets of the Trust Fund (a fiduciary fund) have been increased by $27,709.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Technology Match	$ 35,899
Operating	General	Trust Funds	Reimbursement	1,239
Operating	Building (FSPK)	Debt Service	Debt Service	650,858

(14) ON-BEHALF PAYMENTS

For the year ended June 30, 2012, total payments of $2,847,857 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund balance - Budget and Actual.

On-behalf payments at June 30, 2012 consisted of the following:

Teacher Retirement	$ 932,561
Health & Life Insurance	1,848,570
Technology	62,227
Vocational	4,499

SUPPLEMENTARY INFORMATION

BATH COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	SEEK Funds	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	$ 413,421	$ 20,512	$ 144,529	$ -	$ 578,462
Accounts receivable	-	-	-	-	-
Total assets	$ 413,421	$ 20,512	$ 144,529	$ -	$ 578,462
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	$ -	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-	-
Fund Balances:					
Assigned	-	-	-	-	-
Restricted	413,421	20,512	144,529	-	578,462
Total fund balance	413,421	20,512	144,529	-	578,462
Total liabilities and fund balances	$ 413,421	$ 20,512	$ 144,529	$ -	$ 578,462

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	SEEK Funds	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property taxes	$ -	$ 201,004	$ -	$ -	$ 201,004
Earnings on investments	-	-	46,928	-	46,928
Intergovernmental - State	185,918	454,663	-	668,818	1,309,399
Total revenues	185,918	655,667	46,928	668,818	1,557,331
EXPENDITURES:					
Current -					
Facilities acquisition and construction	-	-	18,240	-	18,240
Debt service	-	-	-	1,319,676	1,319,676
Total expenditures	-	-	18,240	1,319,676	1,337,916
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	185,918	655,667	28,688	(650,858)	219,415
OTHER FINANCING SOURCES (USES):					
Bond proceeds	-	-	-	1,100,000	1,100,000
Payment to bond escrow agent	-	-	-	(1,100,000)	(1,100,000)
Operating transfers in	-	-	-	650,858	650,858
Operating transfers out	-	(650,858)	-	-	(650,858)
Total other financing sources (uses)	-	(650,858)	-	650,858	-
NET CHANGE IN FUND BALANCES	185,918	4,809	28,688	-	219,415
FUND BALANCE JUNE 30, 2011	227,503	15,703	115,841	-	359,047
FUND BALANCE JUNE 30, 2012	$ 413,421	$ 20,512	$ 144,529	$ -	$ 578,462

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2012

	Child Care Fund	Preschool Fund	Total Other Proprietary Funds
ASSETS:			
Cash and cash equivalents	$ 29,560	$ 3,204	$ 32,764
Accounts receivable	-	-	-
Total assets	$ 29,560	$ 3,204	$ 32,764
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Total liabilities	-	-	-
Net Assets:			
Assigned	-	-	-
Restricted	29,560	3,204	32,764
Total net assets	29,560	3,204	32,764
Total liabilities and net assets	$ 29,560	$ 3,204	$ 32,764

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Child Care Fund	Preschool Funds	Total Other Proprietary Funds
Operating revenues:			
Tuition from individuals	$ 102,283	$ 14,770	$ 117,053
Revenue from local sources	43,175	-	43,175
Revenue from state sources	19,225	-	19,225
Total operating revenues	164,683	14,770	179,453
Operating expenses:			
Salaries and wages	100,399	20,007	120,406
Employee benefits	45,290	2,700	47,990
Materials and supplies	13,349	-	13,349
Other operating expenses	450	-	450
Total operating expenses	159,488	22,707	182,195
Operating income	5,195	(7,937)	(2,742)
Nonoperating revenues :			
Transfers in (out)	-	-	-
Total nonoperating revenue	-	-	-
Increase (decrease) in net assets	5,195	(7,937)	(2,742)
Net assets, June 30, 2011	24,365	11,141	35,506
Net assets, June 30, 2012	$ 29,560	$ 3,204	$ 32,764

BATH COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2012

	1996 Bond Fund	1998 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	Totals Debt Service Fund
ASSETS:								
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts receivable	-	-	-	-	-	-	-	-
Total assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
LIABILITIES AND FUND BALANCE:								
Liabilities:								
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-	-	-	-	-
Fund Balances:								
Restricted	-	-	-	-	-	-	-	-
Total fund balance	-	-	-	-	-	-	-	-
Total liabilities and fund balances	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	1996 Bond Fund	1998 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	Totals Debt Service Fund
REVENUES:								
Intergovernmental - State	$ 13,990	$ 27,543	$ 63,670	$ 47,133	$ 50,420	$ 466,062	$ -	$ 668,818
Interest income	-	-	-	-	-	-	-	-
Total revenues	13,990	27,543	63,670	47,133	50,420	466,062	-	668,818
EXPENDITURES:								
Debt service	13,990	82,663	63,670	479,526	50,420	629,407	-	1,319,676
Total expenditures	13,990	82,663	63,670	479,526	50,420	629,407	-	1,319,676
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	(55,120)	-	(432,393)	-	(163,345)	-	(650,858)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	-	-	-	1,100,000	1,100,000
Payment to bond escrow agent	-	-	-	-	-	-	(1,100,000)	(1,100,000)
Operating transfers in	-	55,120	-	432,393	-	163,345	-	650,858
Total other financing sources (uses)	-	55,120	-	432,393	-	163,345	-	650,858
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2011	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Bath County High Schoool	$ 92,077	$ 231,318	$ 223,501	$ 99,894	$ -	$ -	$ 99,894
Bath County Middle School	27,794	123,415	122,216	28,993	-	-	28,993
Owingsville Elementary	35,788	34,900	34,421	36,267	-	-	36,267
Crossroads Elementary	23,783	43,239	45,267	21,755	-	-	21,755
	$ 179,442	$ 432,872	$ 425,405	$ 186,909	$ -	$ -	$ 186,909

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BATH COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disburse-ment	Cash Balance June 30, 2012	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2012
General	$ 8,933	$ 14,617	$ 10,944	$ 12,606	$ -	$ 12,606
Academic team	100	150	85	165	-	165
Guidance	905	1,758	1,179	1,484	-	1,484
Scholarship	-	1,000	1,000	-	-	-
Talented and gifted	653	1,714	1,449	918	-	918
Senior trip	662	27,803	27,918	547	-	547
Special event	55	-	55	-	-	-
Field trip	-	810	810	-	-	-
After Prom	-	8,487	5,992	2,495	-	2,495
Faculty	1,785	2,281	2,709	1,357	-	1,357
Beta Club	3,424	2,960	1,738	4,646	-	4,646
Bookstore	140	-	-	140	-	140
FBLA	1,173	5,545	6,217	501	-	501
FCCLA	238	6,848	6,359	727	-	727
FFA	832	3,002	3,473	361	-	361
FEA	27	330	288	69	-	69
Library Club	243	460	403	300	-	300
TSA	721	550	390	881	-	881
AG-Mechanics	1,275	-	1,237	38	-	38
AG-Science	2,880	3,623	40	6,463	-	6,463
Art	165	-	-	165	-	165
Band	55	3,075	3,045	85	-	85
Hort	18,017	22,678	17,343	23,352	-	23,352
Journalism	13,732	2,026	4,328	11,430	-	11,430
Spanish	468	26	-	494	-	494
Health/Science	35	1,165	1,200	-	-	-
Humanities	653	1,115	1,094	674	-	674
Consumer Science	116	515	603	28	-	28
Athletics	7,954	62,519	63,320	7,153	-	7,153
Pep Club	-	541	541	-	-	-
Baseball	817	500	1,022	295	-	295
Boys basketball	296	1,595	1,240	651	-	651
Cheerleaders	959	350	820	489	-	489
Boys Cross Country	937	280	809	408	-	408
Football	654	2,600	2,953	301	-	301
Girls Cross Country	1,352	280	898	734	-	734
Girls Basketball	606	4,241	3,621	1,226	-	1,226
Girls Softball	259	500	610	149	-	149
Girls Track	1,146	300	1,097	349	-	349
Boys Golf	575	-	475	100	-	100
Girls Golf	1,825	100	1,232	693	-	693
Boys Soccer	748	-	500	248	-	248
Girls Soccer	574	1,162	1,621	115	-	115
Boys Track	691	300	712	279	-	279
Girls Volleyball	1,510	60	857	713	-	713
Junior Class	-	25,164	21,249	3,915	-	3,915
Sophomore Class	5,754	4,910	10,664	-	-	-
Senior Class	7,211	7,569	5,454	9,326	-	9,326
Freshman Class	-	5,593	3,356	2,237	-	2,237
Youth Service Center	922	13	452	483	-	483
Backpack	-	203	99	104	-	104
	$ 92,077	$ 231,318	$ 223,501	$ 99,894	$ -	$ 99,894

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures	
U.S. Department of Education					
Passed through State Department of Education:					
Title I Grants to Local Educational Agencies	84.010	3100202-09	$ 879,557	$ 1,229	*
Title I Grants to Local Educational Agencies	84.010	3100202-10	1,014,491	289,382	*
Title I Grants to Local Educational Agencies	84.010	3100202-11	1,004,450	744,264	*
Title I Grants, School Improvement (Part A)	84.010	3100202-10	116,206	116,206	*
Title I Grants, School Improvement (Part A)	84.010	3100202-11	5,560	5,560	*
ARRA - Title I Grants to Local Educational Agencies	84.389	4100002-09	701,576	5,238	*
				1,161,879	*
Even Start Family Literacy	84.213	3160002-10	161,000	10,723	
Edu Jobs	84.410	EJOB00-11	488,578	357,232	*
ARRA - BOSS - Educational Technology State Grants	84.386	4210002-09	21,465	150	
Educational Technology State Grants	84.318	3210002-10	3,382	480	
				630	
Special Education Cluster (IDEA):					
Special Education Grants to States - IDEA, Part B	84.027	3810002-10	429,244	88,473	*
Special Education Grants to States - IDEA, Part B	84.027	3810002-11	426,101	379,458	*
Special Education Preschool Grants	84.173	3800002-11	30,002	30,002	*
ARRA - Special Education - Preschool	84.391	4810002-09	31,730	2,817	*
				500,750	*
ARRA - Hybrid Bus	81.086	9310002-09	124,778	124,778	
Title VI - Rural & Low Income	84.358	3140002-10	52,149	8,817	
Title VI - Rural & Low Income	84.358	3140002-11	43,076	43,076	
				51,893	
Improving Teacher Quality State Grants	84.367	3230002-10	163,037	2,354	
Improving Teacher Quality State Grants	84.367	3230002-11	131,762	121,064	
				123,418	
Vocational Education Basic Grants to States	84.048	4621132-11	1,384	1,384	
Vocational Education Basic Grants to States	84.048	4621132-12	29,899	29,899	
Vocational Education Basic Grants to States	84.048	4621132-10	1,151	1,151	
				32,434	
Total pass-through State Department of Education				2,363,737	
Pass-through Workforce Cabinet:					
Adult Education	84.002	3,732	44,622	43,454	
Adult Education - Family Literacy	84.002	3,651	10,000	6,257	
				49,711	
Total U.S. Department of Education				2,413,448	

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures	
Appalachian Regional Commission					
Pass-through State Department of Education:					
Appalachian Higher Education Network	23.011	6,880	5,000	1,066	
Total Appalachian Regional Commission				1,066	
Corporation for National & Community Service					
Pass-through State of Department of Education:					
Service Learning Project	94.004	6,750	3,860	1,869	
Service Learning Project	94.004	6,751	6,650	1,132	
Total Corporation for National & Community Service				3,001	
U.S. Department of Agriculture					
Pass-through State Department of Education:					
Cash Assistance:					
Child and Adult Care Food Program	10.558	7800016-11	-	82	
Child and Adult Care Food Program	10.558	7800016-10	-	200	
Child and Adult Care Food Program	10.558	7790021-12	-	5,260	
Child and Adult Care Food Program	10.558	7790021-11	-	2,242	
				7,784	
Fresh Fruits and Vegetables	10.582	7720012-12	-	20,253	
Child Nutrition Cluster:					
National School Lunch Program	10.555	7750002-11	-	141,877	*
National School Lunch Program	10.555	7750002-12	-	504,982	*
Summer Food Service Program for Children	10.559	7690024-11	-	3,520	*
Summer Food Service Program for Children	10.559	7740023-11	-	34,026	*
School Breakfast Program	10.553	7760005-11	-	70,056	*
School Breakfast Program	10.553	7760005-12	-	243,017	*
Cash Assistance Subtotal				997,478	
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555	011-0100	-	65,873	*
Total Child Nutrition Cluster				1,063,351	*
Pass-through Bath County Fiscal Court:					
Schools and Roads Grants to States	10.665	FUND 1-4700	-	26,222	
Total U.S. Department of Agriculture				1,117,610	
Total Federal Assistance				$ 3,535,125	

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bath County School District under the programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Bath County School District, it is not intended to and and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the organization had total inventory of $22,196.

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements and Appendix III to the Independent Auditor's Contract - Electronic Submission.*

Internal Control Over Financial Reporting
Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 29, 2012.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Galloway & Company, PSC

October 29, 2012

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

Compliance

We have audited the compliance of the Bath County School District (the "District") compliance with with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements and Appendix III to the Independent Auditor's Contract - Electronic Submission.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bath County School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control

over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within the entity, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Galloway & Company, PSC

October 29, 2012

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued:			Unqualified	
Internal Control over financial reporting:				
Material weakness(es) identified?	_____	yes	x	no
Significant deficiency(ies) identified that are not considered to material weaknesses?	_____	yes	x	none reported
Noncompliance material to the financial statements noted?	_____	yes	x	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	yes	x	no
Significant deficiency(ies) identified that are not considered to be material weakness(es).	_____	yes	x	none reported
Type of audit auditor's report issued on compliance for major programs:			Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	yes	x	no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2012:

Title I (84.010 and 84.389)
Child Nutrition Cluster (10.553, 10.555, and 10.559)
Special Education Cluster (IDEA) (84.027, 84.173, and 84.391)
Edu Jobs (84.410)

Dollar threshold to distinguish between Type A and Type B Programs:			$ 300,000	
The District qualified as a low risk auditee	x	yes	_____	no

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

BATH COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

There were no findings in the prior year.

BATH COUNTY SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2012

No corrective action plan needed in the current year.

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Owingsville, Kentucky

In planning and performing our audit of the financial statements of Bath County School District (the "District") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report October 29, 2012, on the financial statements of the District.

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

Kelley, Galloway & Company, PSC

October 29, 2012

BATH COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2012

2012-1 Booster Clubs

Statement of Condition: We noted that booster club Annual Financial Reports were not being submitted to the high school on a timely basis. In addition, per review of the bank statements provided with the late reports, we noted blank checks, checks written to "cash", and checks written to the same person who signed the check.

Criteria for Condition: Annual Financial Reports of each of the booster clubs should be prepared and submitted to the high school within 30 days of month-end. Checks made out to cash or with the payee left blank may be cashed by unauthorized persons, and the bank cannot be held liable for cashing them.

Cause of Condition: Oversight.

Effect of the Condition: Annual Financial Reports of the booster clubs were not available on a timely basis. Checks could be misappropriated when written to cash or left blank as to the vendor.

Recommendation of the Condition: We recommend that more care be taken to ensure that the Annual Financial Reports are prepared on a timely basis. In addition, checks should not be made out to cash, left blank, and may want to consider dual signature checks to improve controls.

Management Response: Paul Prater with the assistance of Lana Routt, BCHS Bookkeeper and the Athletic Director will schedule a mandatory meeting with the Booster Clubs and Coaches to discuss the issues addressed in the Bath County High School 2011-12 audit.

Status of Prior Year Management Points

The prior year conditions have been implemented and corrected. The Superintendent is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.