BATH COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

****

	Page
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-8
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements -	
Balance Sheet - Governmental Funds	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Statement of Net Position - Fiduciary Funds	18
Statement of Changes in Net Position - Fiduciary Funds	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund	21
Notes to the Financial Statements	22-36
SUPPLEMENTARY INFORMATION:	
Combining Statements - Non-major Funds -	
Combining Balance Sheet - Non-Major Governmental Funds	37
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Non-Major Governmental Funds	38
Combining Statement of Net Position - Non-major Proprietary Funds	39
Combining Statement of Revenues, Expenses, and Changes in Net Position - Non-Major Proprietary Funds	40
Combining Balance Sheet - Non-Major Debt Service Funds	41
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Non-Major Debt Service Funds	42
Other -	
Statement of Changes in Assets and Liabilities - School Activity Funds	43
Statement of Changes in Assets and Liabilities - School Activity Funds: Bath County High School	44
Schedule of Expenditures of Federal Awards	45-46

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* 47-48

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 49-50

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 51

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 52

CORRECTIVE ACTION PLAN 53

INDEPENDENT AUDITOR'S TRANSMITTAL LETTER FOR MANAGEMENT LETTER POINTS 54

MANAGEMENT LETTER POINTS 55-56

****

Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS
• 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
• Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath County School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, 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 basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of Bath County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley, Galloway & Company, PSC

October 9, 2013

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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 $5,134,291 and the ending balance was approximately $5,454,349, an increase of approximately $320,058 for the year.

- The General Fund had $14,485,933 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was $14,849,427 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 $392,008 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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (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 9 and 10 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 11 through 21 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 22 - 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately $11.5 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that 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 Position for the period ending June 30, 2013

	2013	2012
Current Assets	$ 6,237,114	$ 5,491,385
Noncurrent Assets	21,557,560	22,196,204
Total Assets	$ 27,794,674	$ 27,687,589
Current Liabilities	$ 2,180,725	$ 1,382,163
Noncurrent Liabilities	14,064,370	14,522,050
Total Liabilities	16,245,095	15,904,213
Net Position		
Investment in capital assets (net of debt)	6,778,866	6,853,244
Restricted	1,405,431	1,202,235
Unreserved Fund Balance	3,365,282	3,727,897
Total Net Position	11,549,579	11,783,376
Total liabilities and Net Position	$ 27,794,674	$ 27,687,589

Comments on Budget Comparisons

- The District's total governmental funds revenues for the fiscal year ended June 30, 2013, net of interfund transfers were $19,343,419, compared with $19,296,498 in 2012. 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 $1.4 million less than budget or approximately 9.3%.

- The total cost of all programs and services for governmental activities was $19,454,915, compared with $18,593,503 in 2012. 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, 2013, with comparison to 2012.

	2013	2012
Revenues:		
Local Revenue Sources	$ 2,887,924	$ 2,995,209
State and Federal Revenue Sources	18,020,834	17,965,740
Total Revenues	20,908,758	20,960,949
Expenses:		
Instruction	10,482,210	10,139,394
Student Support Services	1,118,269	941,500
Instructional Support	811,863	835,198
District Administration	898,319	961,734
School Administration	1,028,162	1,028,182
Business and Other Support Services	599,920	407,454
Plant Operations	1,928,310	1,732,970
Student Transportation	1,434,444	1,376,032
Food Service Operations	1,379,658	1,309,066
Child Care Services	161,163	182,195
Community Services	333,448	311,210
Debt service	823,149	857,620
Total Expenses before KSBIT	20,998,915	20,082,555
Extraordinary item – KSBIT	143,640	-
Total Expenses	21,142,555	20,082,555
Revenues Over (Under) Expenses	$ (233,797)	$ 878,394

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 70% and federal funding of 16% of total revenue. Local revenues make up 14% of total revenue (13% in 2012).

District-Wide Support Allocation

District-wide support services expenses were Transportation 7%, Maintenance & Operations 9%, and Business Functions 3%.

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 $330,000 in contingency (2.3%). The general fund cash balance for beginning the next fiscal year is $4,334,802.

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 POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 5,091,329	$ 540,495	$ 5,631,824
Receivables (net of allowances for uncollectibles):			
Taxes	20,402	-	20,402
Other	588	2,074	2,662
Intergovernmental	461,655	104,992	566,647
Inventories	-	15,579	15,579
Capital assets, not being depreciated	551,927	-	551,927
Capital assets, being depreciated, net	20,526,173	479,460	21,005,633
Total assets	26,652,074	1,142,600	27,794,674
Liabilities			
Accounts payable	26,987	14,236	41,223
Cash deficit balance	177,475	-	177,475
Deferred revenue	278,331	-	278,331
Accrued salaries and benefits	632,575		632,575
Portion due or payable within one year:			
Debt obligations	974,938	-	974,938
Interest payable	76,183	-	76,183
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	13,803,756	-	13,803,756
KSBIT liability	143,640	-	143,640
Accrued sick leave	116,974	-	116,974
Total liabilities	16,230,859	14,236	16,245,095
Net Position			
Invested in capital assets, net of related debt	6,299,406	479,460	6,778,866
Restricted for:			
Capital projects	756,527	-	756,527
Other purposes	-	648,904	648,904
Unrestricted	3,365,282	-	3,365,282
Total net position	$ 10,421,215	$ 1,128,364	$ 11,549,579

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, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Primary government:							
Governmental activities:							
Instruction	$ 10,482,210	$ -	$ 1,643,734	$ -	$ (8,838,476)	$ -	$ (8,838,476)
Support services:							
Students	1,118,269	-	171,280	-	(946,989)	-	(946,989)
Instructional staff	811,863	-	604,437	-	(207,426)	-	(207,426)
District administration	898,319	-	2,404	-	(895,915)	-	(895,915)
School administration	1,028,162	-	252	-	(1,027,910)	-	(1,027,910)
Business and other support services	599,920	-	188,801	-	(411,119)	-	(411,119)
Operation and maintenance of plant	1,928,310	-	35,250	-	(1,893,060)	-	(1,893,060)
Student transportation	1,434,444	-	56,644	-	(1,377,800)	-	(1,377,800)
Food service	(3,179)	-	29	-	3,208	-	3,208
Community services	333,448	-	314,930	-	(18,518)	-	(18,518)
Debt service	823,149	-	-	1,332,703	509,554	-	509,554
Total governmental activities	19,454,915	-	3,017,761	1,332,703	(15,104,451)	-	(15,104,451)
Business-type activities:							
Food service	1,382,837	196,197	1,218,662	-	-	32,022	32,022
Child Care	161,163	106,246	42,736	-	-	(12,181)	(12,181)
Total business-type activities	1,544,000	302,443	1,261,398	-	-	19,841	19,841
Total primary government	$ 20,998,915	$ 302,443	$ 4,279,159	$ 1,332,703	$ (15,104,451)	$ 19,841	$ (15,084,610)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					$ 1,374,961	$ -	$ 1,374,961
Motor vehicle					246,739	-	246,739
Utilities					627,768	-	627,768
Intergovernmental revenues:							
State					12,408,972	-	12,408,972
Investment earnings					178,110	1,707	179,817
Gain on sale of assets					140,753	-	140,753
Other local revenues					15,443	-	15,443
Total general revenues and transfers					14,992,746	1,707	14,994,453
Extraordinary item - KSBIT assessment					(143,640)	-	(143,640)
Change in net position					(255,345)	21,548	(233,797)
Net position June 30, 2012					10,676,560	1,106,816	11,783,376
Net position, June 30, 2013					$ 10,421,215	$ 1,128,364	$ 11,549,579

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

BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 4,334,802	$ -	$347,162	$ 409,365	$ 5,091,329
Receivables (net of allowances for uncollectibles):					
Property taxes	20,402	-	-	-	20,402
Other	588	-	-	-	588
Intergovernmental - state	-	461,655	-	-	461,655
Intergovernmental - federal	-	-	-	-	-
Total assets	$ 4,355,792	$ 461,655	$347,162	$ 409,365	$ 5,573,974
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 21,138	$ 5,849	$ -	$ -	$ 26,987
Cash deficit balance	-	177,475	-	-	177,475
Accrued salaries and benefits	632,575	-	-	-	632,575
Deferred revenue	-	278,331	-	-	278,331
Total liabilities	653,713	461,655	-	-	1,115,368
Fund balances:					
Assigned	-	-	-	-	-
Restricted	35,898	-	347,162	409,365	792,425
Non-spendable	-	-	-	-	-
Unassigned	3,666,181	-	-	-	3,666,181
Committed	-	-	-	-	-
Total fund balances	3,702,079	-	347,162	409,365	4,458,606
Total liabilities and fund balances	$ 4,355,792	$ 461,655	$347,162	$ 409,365	$ 5,573,974

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 POSITION
JUNE 30, 2013

Fund balances—total governmental funds	$ 4,458,606
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,078,100
Certain other assets and liabilities are not available to pay current period expenditures and therefore, not reported in the funds.	(76,183)
Some liabilities, including bonds payable, KSBIT payable, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.	(15,039,308)
Net position of governmental activities	$ 10,421,215

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, 2013

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	$ 1,173,120	$ -	$ -	$ 201,841	$ 1,374,961
Motor vehicles	246,739	-	-	-	246,739
Utilities	627,768	-	-	-	627,768
Interest income	13,891	164,219	-	-	178,110
Other local revenues	15,443	34,565	-	-	50,008
Intergovernmental - State	12,364,100	857,737	-	1,332,703	14,554,540
Intergovernmental - Indirect federal	27,934	2,125,459	-	-	2,153,393
Intergovernmental - Direct federal	16,938	-	-	-	16,938
Total revenues	14,485,933	3,181,980	-	1,534,544	19,202,457
Expenditures:					
Current:					
Instruction	8,603,808	1,837,370	-	-	10,441,178
Support services:					
Students	878,107	171,280	-	-	1,049,387
Instructional staff	165,242	604,437	-	-	769,679
District administration	852,261	2,404	-	-	854,665
School administration	1,024,274	252	-	-	1,024,526
Business and other support services	410,427	188,801	-	-	599,228
Operation and maintenance of plant	1,547,914	35,250	-	-	1,583,164
Student transportation	1,221,436	56,644	-	-	1,278,080
Food service	(3,208)	29	-	-	(3,179)
Community services	17,304	314,930	-	-	332,234
Facilities acquisition and construction	-	-	40,573	-	40,573
Debt service	131,862	-	-	1,315,906	1,447,768
Total expenditures	14,849,427	3,211,397	40,573	1,315,906	19,417,303
Excess (deficiency) of revenues over expenditures	(363,494)	(29,417)	(40,573)	218,638	(214,846)
Other financing sources (uses):					
Bond proceeds	-	-	-	4,350,000	4,350,000
Payment to bond escrow agent	-	-	-	(4,350,000)	(4,350,000)
Gain on sale of equipment	140,962	-	-	-	140,962
Transfers in	-	29,417	243,206	643,175	915,798
Transfers out	(28,178)	-	-	(886,381)	(914,559)
Total other financing sources and uses	112,784	29,417	243,206	(243,206)	142,201
Net change in fund balances	(250,710)	-	202,633	(24,568)	(72,645)
Fund balances, June 30, 2012	3,952,789	-	144,529	433,933	4,531,251
Fund balances, June 30, 2013	$ 3,702,079	$ -	$ 347,162	$ 409,365	$ 4,458,606

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, 2013

Net change in fund balances—total governmental funds		$ (72,645)
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	355,841	
Adjustment to gain on disposal of assets	(209)	
Depreciation expense	(990,693)	(635,061)
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		(28,618)
Interest payable		60,353
KSBIT payable		(143,640)
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 position.		564,266
Change in net position of governmental activities		$ (255,345)

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	$ 521,466	$ 19,029	$ 540,495
Receivables (net of allowances for uncollectibles)			
Intergovernmental - federal	104,992	-	104,992
Other	-	2,074	2,074
Inventories	15,579	-	15,579
Total current assets	642,037	21,103	663,140
Noncurrent assets:			
Capital assets, net of accumulated depreciation	479,460	-	479,460
Total noncurrent assets	479,460	-	479,460
Total assets	$1,121,497	$21,103	$1,142,600
Liabilities			
Current liabilities:			
Accounts payable	$ 13,716	$ 520	$ 14,236
Total current liabilities	13,716	520	14,236
Total liabilities	13,716	520	14,236
Net Position			
Invested in capital assets, net of related debt	479,460	-	479,460
Restricted	628,321	20,583	648,904
Total net assets	1,107,781	20,583	1,128,364
Total liabilities and net position	$ 1,121,497	$ 21,103	$ 1,142,600

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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Operating revenues:			
Lunchroom sales	$ 196,197	$ -	$ 196,197
Tuition from individuals	-	106,246	106,246
Revenue from local sources	1,300	24,070	25,370
Revenue from state sources (on-behalf)	79,640	18,666	98,306
Total operating revenues	277,137	148,982	426,119
Operating expenses:			
Salaries and wages	374,920	99,970	474,890
Employee benefits	177,983	42,190	220,173
Materials and supplies	741,750	18,737	760,487
Depreciation	30,800	-	30,800
Other operating expenses	57,384	266	57,650
Total operating expenses	1,382,837	161,163	1,544,000
Operating income (loss)	(1,105,700)	(12,181)	(1,117,881)
Nonoperating revenues:			
Federal grants	1,053,468	-	1,053,468
Investment income	1,707	-	1,707
Donated commodities	72,028	-	72,028
State grants	12,226	-	12,226
Total nonoperating revenue	1,139,429	-	1,139,429
Increase (decrease) in net position	33,729	(12,181)	21,548
Net position, June 30, 2012	1,074,052	32,764	1,106,816
Net position, June 30, 2013	$ 1,107,781	$ 20,583	$ 1,128,364

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, 2013

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	$ 196,197	$ -	$ 196,197
Tuition	-	104,172	104,172
Other revenues	1,300	42,736	44,036
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(649,537)	(18,737)	(668,274)
Payments to employees	(473,263)	(142,160)	(615,423)
Other payments	(57,384)	254	(57,130)
Net cash provided by (used for) operating activities	(982,687)	(13,735)	(996,422)
Cash flows from noncapital financing activities:			
Government grants	960,702	-	960,702
Net cash provided by noncapital and related financing activities	960,702	-	960,702
Cash flows from capital and related financing activities:			
Purchases of capital assets	(27,217)	-	(27,217)
Net cash used for capital and related financing activities	(27,217)	-	(27,217)
Cash flows from investing activities:			
Interest received on investments	1,707	-	1,707
Net cash provided by investing activities	1,707	-	1,707
Net increase (decrease) in cash and cash equivalents	(47,495)	(13,735)	(61,230)
Cash and cash equivalents, June 30, 2012	568,961	32,764	601,725
Cash and cash equivalents, June 30, 2013	$ 521,466	$ 19,029	$ 540,495
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	$ (1,105,700)	$ (12,181)	$ (1,117,881)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	30,800	-	30,800
Donated commodities	72,028	-	72,028
Change in assets and liabilities:			
Inventory	6,617	-	6,617
Accounts receivable	-	(2,074)	(2,074)
Accounts payable	13,568	520	14,088
Net cash provided by (used for) operating activities	$ (982,687)	$ (13,735)	$ (996,422)
Non-cash items:			
Donated commodities	$ 72,028	$ -	$ 72,028
On-behalf payments	79,640	18,666	98,306

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Trust Funds	Activity Funds
Assets		
Cash and cash equivalents	$ 26,590	$ 199,309
Accounts receivable	-	-
Total assets	26,590	199,309
Liabilities		
Accounts payable	-	-
Interfund payable	-	-
Due to students	-	199,309
Total liabilities	-	199,309
Net position held in trust	$ 26,590	$ -

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

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Trust Funds
Additions -	
Interest income	$ -
Other local revenues	770
	770
Deductions -	
Transfer out	1,239
Benefits paid	1,150
	2,389
Change in net assets	(1,619)
Net position, June 30, 2012	28,209
Net position, June 30, 2013	$ 26,590

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes -				
Property	$ 880,000	$ 880,000	$ 1,173,120	$ 293,120
Motor vehicles	200,000	200,000	246,739	46,739
Utilities	500,000	500,000	627,768	127,768
Interest income	20,000	20,000	13,891	(6,109)
Other local revenues	1,500	1,500	15,443	13,943
Intergovernmental - State	9,200,242	9,200,242	9,477,762	277,520
Intergovernmental - Indirect federal	-	-	27,934	27,934
Intergovernmental - Direct federal	5,000	5,000	16,938	11,938
Total revenues	10,806,742	10,806,742	11,599,595	792,853
Expenditures:				
Current:				
Instruction	6,964,521	6,964,521	6,524,975	439,546
Support services:				
Students	662,510	662,510	695,916	(33,406)
Instructional staff	293,723	293,723	131,217	162,506
District administration	1,124,783	1,124,783	766,696	358,087
School administration	830,944	830,944	790,346	40,598
Business and other support services	286,004	286,004	346,235	(60,231)
Operation and maintenance of plant	1,650,156	1,650,156	1,449,634	200,522
Student transportation	1,197,190	1,197,190	1,114,588	82,602
Food service	-	-	(3,208)	3,208
Community services	14,696	14,696	14,828	(132)
Debt service	300,000	300,000	131,862	168,138
Contingency	432,715	1,349,606	-	1,349,606
Total expenditures	13,757,242	14,674,133	11,963,089	2,711,044
Excess (deficiency) of revenues over expenditures	(2,950,500)	(3,867,391)	(363,494)	3,503,897
Other financing sources (uses):				
Gain on sale of equipment	500	500	140,962	140,462
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(28,178)	21,822
Total other financing sources and uses	(49,500)	(49,500)	112,784	162,284
Net change in fund balances	(3,000,000)	(3,916,891)	(250,710)	3,666,181
Fund balances, June 30, 2012	3,000,000	3,916,891	3,952,789	35,898
Fund balances, June 30, 2013	$ -	$ -	$ 3,702,079	$ 3,702,079

Adjustments to Generally Accepted Accounting Principles -	
Intergovernmental State Revenue	$ 2,886,338
On-behalf payments:	
Instruction	(2,078,833)
Support services:	
Student support	(182,191)
Instructional staff support	(34,025)
District administration	(85,565)
School administration	(233,928)
Business and other support services	(64,192)
Operation and maintenance of plant	(98,280)
Student transportation	(106,848)
Community services	(2,476)
Fund balance, June 30, 2013 (GAAP basis)	$ 3,702,079

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Interest income	$ 172,883	$ 160,979	$ 164,219	$ 3,240
Other local revenues	53,461	34,945	34,565	(380)
Intergovernmental - State	903,497	859,247	857,737	(1,510)
Intergovernmental - Indirect federal	1,562,223	1,969,232	2,125,459	156,227
Intergovernmental - Direct federal	-	-	-	-
Total revenues	2,692,064	3,024,403	3,181,980	157,577
Expenditures:				
Current:				
Instruction	1,957,347	1,890,560	1,837,370	53,190
Support services:				
Students	111,652	163,862	171,280	(7,418)
Instructional staff	273,369	657,017	604,437	52,580
District administration	-	-	2,404	(2,404)
School administration	-	-	252	(252)
Business and other support services	-	-	188,801	(188,801)
Operation and maintenance of plant	34,012	42,207	35,250	6,957
Student transportation	30,256	32,156	56,644	(24,488)
Food service	-	-	29	(29)
Community services	274,153	288,601	314,930	(26,329)
Debt service	61,275	-	-	-
Total expenditures	2,742,064	3,074,403	3,211,397	(136,994)
Excess (deficiency) of revenues over expenditures	(50,000)	(50,000)	(29,417)	20,583
Other financing sources (uses):				
Transfers in	50,000	50,000	29,417	(20,583)
Transfers out	-	-	-	-
Total other financing sources and uses	50,000	50,000	29,417	(20,583)
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2012	-	-	-	-
Fund balances, June 30, 2013	$ -	$ -	$ -	$ -

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

(1) REPORTING ENTITY

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

The 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 Corporation's 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 had a carryover balance from FY 2013 of $37,393 and received $118,326 in quarterly payments in the current year and spent $164,872 and had a receivable balance of $8,073 due from the Trust at June 30, 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 position 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. This is a major fund of the District.

(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.

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

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

(B) The 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 are recorded from 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 position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied 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, 2013, to finance the General Fund operations were $.368 per $100 valuation for real property, $.368 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 2013 fiscal year was based, was $345,692,870.

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 position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars ($5,000) with the exception of 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 position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the 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 position. 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 Position

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

Operating 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.

New 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. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

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 and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

(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 $5,680,248 and the related bank balances totaled $6,725,631. Of the total cash balance, $452,165 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	$ 4,913,854
Proprietary funds	540,495
Trust and Agency funds	225,899
	$ 5,680,248

(5) LONG-TERM DEBT

Bonds

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%
2003-K	955,000	1.10% – 3.15%
2004	850,000	2.00% – 5.00%
2004-K	123,315	1.00% – 3.15%
2006-K	132,173	3.30% – 4.00%
2005	5,665,000	3.00% – 4.25%
2006-K	208,738	3.50%–3.875%
2008	705,000	3.30% – 4.30%
2008-K	159,075	2.40% – 4.00%
2008	8,975,000	2.30% – 4.00%
2009-K	120,186	2.00% – 3.90%
2012-K	166,886	2.00% – 2.63%
2012	1,100,000	1.10% – 2.35%
2013	4,350,000	1.00% – 2.25%

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 April 1, 2013, the Bath County School District issued $4,350,000 in Refunding Revenue Bonds with an average interest rate of 1.96% to advance refund $3,960,000 of outstanding 2005 Revenue Bonds with an average interest rate of 4.17%. The net proceeds of $4,338,867 (after payment of $50,490 of issuance costs, plus $35,636 of premium on bonds, plus $3,721 in accrued interest) were used to open the Bond and Redemption Fund for the 2005 Issue. As a result, $3,960,000 of the 2005 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 $3,960,000 of the 2005 Series Bonds to reduce its total debt service payments over the next 13 years by approximately $315,811 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of 6.992% or $269,008 on the 2005 Revenue Bonds.

In 2004, 2005, 2008, 2012, and 2013, 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, 2013, for debt service (principal and interest) are as follows:

	Kentucky School Facilities Construction Commission		Bath County School District		
Year	Principal	Interest	Principal	Interest	Total
2014	$ 418,481	$ 239,508	$ 556,457	$ 175,699	$ 1,390,145
2015	428,443	228,429	536,718	178,333	1,371,923
2016	439,654	216,225	554,209	161,460	1,371,548
2017	450,864	203,817	549,303	148,053	1,352,037
2018	467,290	191,212	535,930	138,725	1,333,157
2019-2023	2,444,060	728,651	2,702,285	511,230	6,386,226
2024-2028	2,495,703	288,684	2,199,297	165,318	5,149,002
	$7,144,495	$2,096,526	$ 7,634,199	$ 1,478,818	$ 18,354,038

KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District's liability would be $143,640. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. The District has recorded this estimated amount in their long-term obligations since ultimate payment is probable and is included as an extraordinary item on the Statement of Activities.

Following are changes in long-term debt:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
September 1996 issue	$ 60,000	$ -	$ 60,000	$ -
April 2003 KISTA	22,507	-	22,507	-
June 2004	80,000	-	40,000	40,000
January 2004 KISTA	22,681	-	11,158	11,523

August 2005 series	5,135,000	-	4,235,000	900,000
January 2006 KISTA	53,416	-	13,901	39,515
September 2006 KISTA	108,409	-	21,530	86,879
January 2008 series	605,000	-	30,000	575,000
January 2008 KISTA	95,848	-	15,581	80,267
May 2008 series	7,810,000	-	345,000	7,465,000
January 2009 series	83,213	-	11,438	71,775
January 2012 KISTA	166,886	-	18,151	148,735
May 2012 series	1,100,000	-	90,000	1,010,000
April 2013 series	-	4,350,000	-	4,350,000
KSBIT Liability	-	143,640	-	143,640
Accumulated unpaid sick leave benefits	88,356	28,618	-	116,974
Totals	$ 15,431,316	$ 4,522,258	$ 4,914,266	$ 15,039,308

(6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Non-depreciable:				
Land	$ 518,317	$ -	$ -	$ 518,317
Construction in progress	-	33,610	-	33,610
Depreciable:				
Land improvements	949,651	-	-	949,651
Buildings and improvements	25,707,728	-	-	25,707,728
Technology equipment	1,739,184	135,781	49,956	1,825,009
General equipment	806,859	17,523	-	824,382
Vehicles	2,744,084	168,927	-	2,913,011
Totals	32,465,823	355,841	49,956	32,771,708
Less: accumulated depreciation				
Land improvements	783,842	28,777	-	812,619
Buildings and improvements	6,611,303	521,566	-	7,132,869
Technology equipment	1,009,244	227,813	49,747	1,187,310
General equipment	495,376	45,479	-	540,855
Vehicles	1,852,897	167,058	-	2,019,955
Total accumulated depreciation	10,752,662	990,693	49,747	11,693,608
Governmental Activities Capital Assets - Net	$ 21,713,161	$ (634,852)	$ (209)	$ 21,078,100
Business-Type Activities				
Buildings and improvements	$ 308,000	$ -	$ -	$ 308,000
Food service and equipment	495,880	21,507	-	517,387
Technology equipment	6,081	5,710	705	11,086
	809,961	27,217	705	836,473
Less: accumulated depreciation				
Food service equipment	25,153	6,160	-	31,313
Food service and equipment	296,668	23,560	-	320,228
Technology equipment	5,097	1,080	705	5,472
	326,918	30,800	705	357,013
Business-Type Activities Capital Assets - Net	$ 483,043	$ (3,853)	$ -	$ 479,460

Depreciation expense was allocated to governmental functions as follows:

Instruction	$ 328,921
Student support services	68,882
Instructional staff support services	42,184
District administration	43,654
School administration	3,636
Business support services	692
Plant operation & maintenance	345,146
Student transportation	156,364
Community service activities	1,214
	$ 990,693

(7) COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of June 30, 2013, as follows:

Year ending	
2014	$ 93,575
Total minimum rentals	$ 93,575

(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). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

The 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 may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at http://www.ktrs.ky.gov/.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The Federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was $11,292,336. The payroll for employees covered under KTRS was $8,415,274. For the year ended June 30, 2013, the Commonwealth of Kentucky contributed $976,117 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2013, were $148,027, 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 age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, the District pays 1.0% of members' salary.

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 19.55% 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 $11,292,336. The payroll for employees covered under CERS was $2,522,211. The District's contributions to CERS for the year ending June 30, 2013, 2012, and 2011 were $475,973, $456,460, and $419,003, respectively, equal to the required contributions for the year.

(9) INSURANCE AND RELATED ACTIVITIES

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

(10) 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.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for 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 Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District's liability would be $143,640. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

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.

(12) COBRA

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

(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	$ 28,178
Operating	Trust Funds	Special Revenue	Reimbursement	1,239
Operating	Building (FSPK)	Debt Service	Debt Service	643,175
Operating	Capital Outlay	Construction	Construction	227,503
Operating	Building (FSPK)	Construction	Construction	15,703

(14) ON-BEHALF PAYMENTS

For the year ended June 30, 2013, total payments of $3,657,376 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and SFCC debt service. 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, 2013 consisted of the following:

Teacher Retirement	$ 976,117
Health & Life Insurance	1,946,133
Technology	62,395
SFCC Debt Service	672,731

SUPPLEMENTARY INFORMATION

BATH COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	SEEK Funds	FSPK Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 372,256	$ 37,109	$ -	$ 409,365
Accounts receivable	-	-	-	-
Total assets	$ 372,256	$ 37,109	$ -	$ 409,365
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Fund Balances:				
Assigned	-	-	-	-
Restricted	372,256	37,109	-	409,365
Total fund balance	372,256	37,109	-	409,365
Total liabilities and fund balances	$ 372,256	$ 37,109	$ -	$ 409,365

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	SEEK Funds	FSPK Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:				
From local sources -				
Property taxes	$ -	$ 201,841	$ -	$ 201,841
Earnings on investments	-	-	-	-
Intergovernmental - State	186,338	473,634	672,731	1,332,703
Total revenues	186,338	675,475	672,731	1,534,544
EXPENDITURES:				
Current -				
Facilities acquisition and construction	-	-	-	-
Debt service	-	-	1,315,906	1,315,906
Total expenditures	-	-	1,315,906	1,315,906
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	186,338	675,475	(643,175)	218,638
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	4,350,000	4,350,000
Payment to bond escrow agent	-	-	(4,350,000)	(4,350,000)
Operating transfers in	-	-	643,175	643,175
Operating transfers out	(227,503)	(658,878)	-	(886,381)
Total other financing sources (uses)	(227,503)	(658,878)	643,175	(243,206)
NET CHANGE IN FUND BALANCES	(41,165)	16,597	-	(24,568)
FUND BALANCE JUNE 30, 2012	413,421	20,512	-	433,933
FUND BALANCE JUNE 30, 2013	$ 372,256	$ 37,109	$ -	$ 409,365

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2013

	Child Care Fund	Preschool Fund	Total Other Proprietary Funds
ASSETS:			
Cash and cash equivalents	$ 14,902	$ 4,127	$ 19,029
Accounts receivable	2,074	-	2,074
Total assets	$ 16,976	$ 4,127	$ 21,103
LIABILITIES AND NET POSITION:			
Liabilities:			
Accounts payable	$ 395	$ 125	$ 520
Total liabilities	395	125	520
Net Position:			
Assigned	-	-	-
Restricted	16,581	4,002	20,583
Total net assets	16,581	4,002	20,583
Total liabilities and net position	$ 16,976	$ 4,127	$ 21,103

BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Child Care Fund	Preschool Funds	Total Other Proprietary Funds
Operating revenues:			
Tuition from individuals	$ 96,458	$ 9,788	$ 106,246
Revenue from local sources	24,070	-	24,070
Revenue from state sources	18,666	-	18,666
Total operating revenues	139,194	9,788	148,982
Operating expenses:			
Salaries and wages	97,871	2,099	99,970
Employee benefits	41,888	302	42,190
Materials and supplies	12,148	6,589	18,737
Other operating expenses	266	-	266
Total operating expenses	152,173	8,990	161,163
Operating income	(12,979)	798	(12,181)
Nonoperating revenues :			
Transfers in (out)	-	-	-
Total nonoperating revenue	-	-	-
Increase (decrease) in net assets	(12,979)	798	(12,181)
Net position, June 30, 2012	29,560	3,204	32,764
Net position, June 30, 2013	$ 16,581	$ 4,002	$ 20,583

BATH COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2013

	1996 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	2013 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, 2013

	1996 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	2013 Bond Fund	Totals Debt Service Fund
REVENUES:								
Intergovernmental - State	$ 13,705	$ 43,200	$ 41,633	$ 54,595	$ 466,063	$ 53,535	$ -	$ 672,731
Interest income	-	-	-	-	-	-	-	-
Total revenues	13,705	43,200	41,633	54,595	466,063	53,535	-	672,731
EXPENDITURES:								
Debt service	13,705	43,200	474,308	54,595	629,859	100,239	-	1,315,906
Total expenditures	13,705	43,200	474,308	54,595	629,859	100,239	-	1,315,906
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	(432,675)	-	(163,796)	(46,704)	-	(643,175)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	-	-	-	4,350,000	4,350,000
Payment to bond escrow agent	-	-	-	-	-	-	(4,350,000)	(4,350,000)
Operating transfers in	-	-	432,675	-	163,796	46,704	-	643,175
Total other financing sources (uses)	-	-	432,675	-	163,796	46,704	-	643,175
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2012	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2013
Bath County High Schoool	$ 99,894	$ 233,355	$ 224,853	$ 108,396	$ -	$ -	$ 108,396
Bath County Middle School	28,993	121,496	116,833	33,656	-	-	33,656
Owingsville Elementary	36,267	37,667	36,396	37,538	-	-	37,538
Crossroads Elementary	21,755	34,571	36,607	19,719	-	-	19,719
	$ 186,909	$ 427,089	$ 414,689	$ 199,309	$ -	$ -	$ 199,309

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BATH COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance June 30, 2012	Receipts	Disburse-ment	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2013
General	$ 12,606	$ 14,219	$ 16,884	$ 9,941	$ -	$ 9,941
Academic team	165	-	-	165	-	165
Guidance	1,484	1,288	589	2,183	-	2,183
Talented and gifted	918	-	245	673	-	673
Senior trip	547	37,775	37,625	697	-	697
After Prom	2,495	7,085	8,564	1,016	-	1,016
Faculty	1,357	1,918	2,328	947	-	947
Beta Club	4,646	480	1,450	3,676	-	3,676
Bookstore	140	-	-	140	-	140
FBLA	501	6,780	6,631	650	-	650
FCCLA	727	10,891	8,759	2,859	-	2,859
FFA	361	2,721	2,177	905	-	905
FEA	69	693	709	53	-	53
Library Club	300	-	-	300	-	300
TSA	881	1,671	2,255	297	-	297
FCA	-	180	50	130	-	130
AG-Mechanics	38	-	-	38	-	38
AG-Science	6,463	935	3,591	3,807	-	3,807
Art	165	-	-	165	-	165
Band	85	2,716	2,668	133	-	133
Hort	23,352	20,555	21,381	22,526	-	22,526
Journalism	11,430	1,820	1,881	11,369	-	11,369
Spanish	494	1,130	1,165	459	-	459
Health/Science	-	862	862	-	-	-
Humanities	674	-	226	448	-	448
Consumer Science	28	914	920	22	-	22
Athletics	7,153	59,437	43,731	22,859	-	22,859
Baseball	295	1,039	416	918	-	918
Boys basketball	651	10,938	11,371	218	-	218
Cheerleaders	489	500	420	569	-	569
Boys Cross Country	408	1,642	1,304	746	-	746
Football	301	1,639	1,188	752	-	752
Girls Cross Country	734	1,642	1,619	757	-	757
Girls Basketball	1,226	3,295	3,035	1,486	-	1,486
Girls Softball	149	400	300	249	-	249
Girls Track	349	1,540	1,449	440	-	440
Boys Golf	100	939	720	319	-	319
Girls Golf	693	300	-	993	-	993
Boys Soccer	248	400	643	5	-	5
Girls Soccer	115	1,410	1,323	202	-	202
Boys Track	279	1,539	1,559	259	-	259
Girls Volleyball	713	1,039	375	1,377	-	1,377
Junior Class	3,915	14,368	14,414	3,869	-	3,869
Sophomore Class	-	9,283	3,992	5,291	-	5,291
Senior Class	9,326	1,494	10,484	336	-	336
Freshman Class	2,237	4,814	5,135	1,916	-	1,916
Youth Service Center	483	-	30	453	-	453
Backpack	104	1,064	385	783	-	783
	$ 99,894	$ 233,355	$ 224,853	$ 108,396	$ -	$ 108,396

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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	3100202-12	$ 956,921	$ 670,206	*
Title I Grants to Local Educational Agencies	84.010	3100202-11	1,004,450	260,186	*
Title I Grants, School Improvement (Part A)	84.010	3100202-11	63,695	53,228	*
				983,620	*
Edu Jobs	84.410	EJOB00-10	492,041	3,463	
Educational Technology State Grants	84.318	3210002-10	3,382	1,364	
Special Education Cluster (IDEA):					
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	429,260	387,012	*
Special Education Grants to States - IDEA, Part B	84.027	3810002-11	426,101	46,643	*
Special Education Preschool Grants	84.173	3800002-12	29,899	23,243	*
				456,898	*
Race to the Top	84.413	4521	40,509	27,514	
Title VI - Rural & Low Income	84.358	3140002-11	54,661	2,512	
Title VI - Rural & Low Income	84.358	3140002-12	39,269	35,791	
				38,303	
Improving Teacher Quality State Grants	84.367	3230002-12	130,197	114,908	
Improving Teacher Quality State Grants	84.367	3230002-11	131,762	10,698	
				125,606	
Vocational Education Basic Grants to States	84.048	4621332-13	27,233	27,233	
Vocational Education Basic Grants to States	84.048	4621332-12	1,500	1,500	
				28,733	
Total U.S. Department of Education				1,665,501	
Appalachian Regional Commission					
Pass-through State Department of Education:					
Appalachian Higher Education Network	23.011	6880	5,000	652	
Total Appalachian Regional Commission				652	
Corporation for National & Community Service					
Pass-through State of Department of Education:					
Service Learning Project	94.004	6751	6,650	4,512	
Total Corporation for National & Community Service				4,512	

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
U.S. Department of Agriculture				
Direct Program:				
RUS - Distance Learning and Telemedicine Grant	10.855	RDUP-07-01-DLT	462,157	460,807 *
Pass-through State Department of Education:				
Cash Assistance:				
Child and Adult Care Food Program	10.558	7800016-12	-	158
Child and Adult Care Food Program	10.558	7800016-13	-	152
Child and Adult Care Food Program	10.558	7790021-12	-	3,128
Child and Adult Care Food Program	10.558	7790021-13	-	3,307
				6,745
Fresh Fruits and Vegetables	10.582	7720012-12	-	1,325
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-13	-	551,610
National School Lunch Program	10.555	7750002-12	-	141,967
Summer Food Service Program for Children	10.559	7690024-12	-	2,723
Summer Food Service Program for Children	10.559	7740023-12	-	26,316
School Breakfast Program	10.553	7760005-13	-	243,012
School Breakfast Program	10.553	7760005-12	-	62,271
Cash Assistance Subtotal				1,027,899
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	011-0100	-	72,028
Total Child Nutrition Cluster				1,099,927
Pass-through Bath County Fiscal Court:				
Schools and Roads Grants to States	10.665	FUND 1-4700	-	27,934
Total U.S. Department of Agriculture				1,596,738
Total Federal Assistance				$ 3,267,403

* 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, 2013. 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, 2013, the organization had total inventory of $15,579.

Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS
• 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
• Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America

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, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2013. 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 the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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.*

Purpose of this Report

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

Kelley, Galloway & Company, PSC

October 9, 2013

Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS
• 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
• Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America

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

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

Report on Compliance for Each Major Federal Program

We have audited Bath County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. Bath County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Kelley, Galloway & Company, PSC

October 9, 2013

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued:		Unmodified		
Internal Control over financial reporting:				
Material weakness(es) identified?	_____	yes	x	no
Significant deficiency(ies) identified?	_____	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?	_____	yes	x	none reported
Type of audit auditor's report issued on compliance for major programs:		Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	yes	x	no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2013:

Title I (84.010)
Special Education Cluster (IDEA) (84.027 and 84.173)
RUS-Distance Learning and Telemedicine Grant (10.855)

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) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

BATH COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

There were no findings in the prior year.

BATH COUNTY SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2013

No corrective action plan needed in the current year.

Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS
• 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
• Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America

Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
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, 2013, 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 9, 2013, 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 9, 2013

BATH COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2013

2013-1 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. Any booster organization who does not comply should not be permitted to fundraise in the school's name the following school year.

Management Response: A meeting will be held with each of the booster organizations to outline the expectations for 2013-14. The principal, athletic director, coach/sponsor and bookkeeper will conduct the meeting along with the superintendent, finance director and athletic central office point of contact administrator. A copy of the board policy on fundraising will be provided to the representative (president, secretary, or treasurer). The representative will be provided a statement to sign that the following information was discussed: no employee (this includes coaches and directors or spouses of coaches, director, etc.) shall sign the booster checks; no checks payable to cash; no blank checks; reports must be submitted on time to the high school including all required documentation per board policy which will be provided in this meeting; minutes should be kept for each meeting and signed by President and Secretary; no collection of monies for individual students; no fundraising activity shall be conducted prior to Board approval; recommend two (2) signatures on checks. All of this information will be listed on a statement for them to sign. If the things listed are not fulfilled in fiscal year 2013-14, the superintendent will recommend to the Board that the school disassociate from the external booster group for fundraising in fiscal year 2014-15 (per Redbook guidelines page 23, item number 16 under General Guidelines for External Support/Booster Organizations).

2013-2 Credit Card Purchases

Statement of Condition: We noted 1 instance where a detailed receipt was not provided to support the purchase made with the credit card.

Criteria for Condition: The District's policy requires detailed receipts to support all purchases.

Cause of Condition: The vendor did not give a detailed receipt.

Effect of the Condition: District policy is not being properly followed.

Recommendation of the Condition: We recommend that personnel be required to adhere to the District policy whereby detailed receipts are obtained for all District purchases.

Management Response: A receipt was submitted for reimbursement that was not a detailed receipt. It was an oversight. An e-mail has been sent to all employees that detailed receipts must be submitted or there will be no reimbursement.

2013-3 Bus Driver Payroll

Statement of Condition: We noted that currently the bus drivers are not required to complete time sheets. In addition, the District was unable to locate the employment contracts for bus drivers for FY 2013.

Criteria for Condition: The District's policy does not currently require time sheets for bus drivers. Bus driver contracts were misplaced.

Cause of Condition: The person in charge of maintaining bus driver contracts is no longer with the District.

Effect of the Condition: Bus driver hours are not documented as reviewed and approved by a supervisor, since no time sheets are required. Adherence to District policy is not documented, since the contracts cannot be located.

Recommendation of the Condition: We recommend that the District re-evaluate their policy regarding time sheets for bus drivers. We also recommend personnel be required to adhere to the District policy whereby employment contracts are maintained in each District employee's personnel file.

Management Response: Management believes the contracts were obtained, but misplaced during the transition to a new Personnel Director. They are in the process of obtaining replacement contracts for FY 2013. The District will begin obtaining bus driver time sheets effective November 1, 2013.

Status of Prior Year Management Points

The prior year condition was repeated in the current year as 2013-1. The Superintendent is the person responsible for initiation of the optional corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.