

WASHINGTON COUNTY

SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Washington County Board of Education and
State Committee for School District Audits
Springfield, 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 Washington County School 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 Washington County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Washington 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 Washington County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Washington County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The restated beginning fund balance for the district was \$21,755,434 of which \$2,854,785 was General Fund, \$18,900,649 was in the restricted funds of Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$12,394,575 of which \$2,559,153 was General Fund, \$9,835,422 was in the restricted funds of Capital Outlay, Building Fund, and Construction Fund.
- The ending cash balance was \$3,155,896 for General Fund. Accounts payable and accrued salaries and benefit payable totaled \$704,610 leaving an unassigned fund balance of \$2,096,853, assigned fund balance \$304,720 and a committed fund balance of \$157,579.
- The Board issued revenue bonds during fiscal year 2013 in the amount of \$1,390,000 to retire the 2003 bonds.
- General Fund Revenue totaled \$12,930,977 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$13,189,517 exclusive of inter-fund transfers. These totals include on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers’ Retirement contributions.
- Our District continues to look for outside funding sources through grants and other venues as a means of achieving our Career and College readiness goals.
- At June 30, 2013 the new high school construction project was 60% complete. Construction is expected to be completed by April 2014.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Washington County School District’s finances, in a manner similar to a private-sector business.

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

The statement of net position presents information on all of the Washington County School 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 Washington County School District is improving or deteriorating.

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

The district-wide financial statements can be found on the table of contents in this report.

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary 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 the table of contents in 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 district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in 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 plus deferred outflows exceeded liabilities by approximately \$16,423,044 as of June 30, 2013. The largest portion of the District’s net position is amounts in capital projects funds that is restricted for that purpose. The next 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

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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.

2013 District-Wide Governmental Net position compared to 2012 as follows:

	Net Position (in Millions)						Total Percentage Change 2012-2013
	Governmental Activities		Business-type Activities		Total School District		
	2012	2013	2012	2013	2012	2013	
Assets:							
Current and Other Assets	23.29	14.17	0.23	0.33	23.52	14.50	-38%
Capital Assets	<u>15.87</u>	<u>24.93</u>	<u>0.06</u>	<u>0.05</u>	<u>15.93</u>	<u>24.98</u>	57%
Total Assets	<u>39.16</u>	<u>39.10</u>	<u>0.29</u>	<u>0.38</u>	<u>39.45</u>	<u>39.48</u>	0%
Loss for the difference							
in reacquisition and carrying							
value of refunding debt							
	<u>0.00</u>	<u>0.14</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.14</u>	100%
	<u>0.00</u>	<u>0.14</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.14</u>	100%
Current Liabilities	1.81	2.86	0.00	0.04	1.81	2.90	60%
Noncurrent Liabilities	<u>19.97</u>	<u>19.96</u>	<u>0.00</u>	<u>0.00</u>	<u>19.97</u>	<u>19.96</u>	0%
Total Liabilities	<u>21.78</u>	<u>22.81</u>	<u>0.00</u>	<u>0.04</u>	<u>21.78</u>	<u>22.85</u>	5%
Net position:							
Invested in Capital Assets							
Net of Debt	-4.34	4.92	0.06	0.05	-4.28	4.97	-216%
Restricted	18.98	10.35			18.98	10.35	-45%
Unrestricted Net Position	<u>2.75</u>	<u>1.16</u>	<u>0.23</u>	<u>0.29</u>	<u>2.98</u>	<u>1.45</u>	-51%
Total Net Position	<u>17.39</u>	<u>16.43</u>	<u>0.29</u>	<u>0.34</u>	<u>17.68</u>	<u>16.77</u>	-5%

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENTAL ACTIVITIES

Ending net position was \$16.76 million for the District.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2012-2013
	2012	2013	2012	2013	2012	2013	
Revenues:							
Charges for services	\$ 0.02	\$ 0.19	\$ 0.37	\$ 0.40	\$ 0.39	\$ 0.59	51%
Operating grants and contributions	2.68	2.67	0.76	0.65	3.44	3.32	-3%
Capital grants and contributions	1.84	0.81	-		1.84	0.81	-56%
General revenues	12.70	13.46	0.07	0.01	12.77	13.47	5%
Total revenue	\$ 17.24	\$ 17.13	\$ 1.20	\$ 1.06	\$ 18.44	\$ 18.19	-1%
Expenses:							
Instruction	\$ 9.74	\$ 10.05			\$ 9.74	\$ 10.05	3%
Student	0.41	0.56			0.41	0.56	37%
Instructional staff	0.46	0.54			0.46	0.54	17%
District administration	0.61	0.78			0.61	0.78	28%
School administration	0.59	0.99			0.59	0.99	68%
Business	0.66	0.74			0.66	0.74	12%
Plant operation & maintenance	0.90	1.18			0.90	1.18	31%
Student transportation	0.95	0.92			0.95	0.92	-3%
Community services operations	0.31	0.32			0.31	0.32	3%
Debt Service	0.91	0.02			0.91	0.02	-98%
Depreciation/Amortization	0.73	0.72		0.01	0.73	0.73	0%
Interest on long-term debt	0.32	0.73			0.32	0.73	128%
Food Service Operations			0.95	0.89	0.95	0.89	-6%
Day Care Operations	0.00	-	0.13	0.11	0.13	0.11	-15%
Extraordinary Item	0.00	0.30	-	-	-	0.30	100%
Total Expenses	\$ 16.59	\$ 17.86	\$ 1.08	\$ 1.01	\$ 17.67	\$ 18.87	7%
Change in net position	\$ 0.65	\$ (0.73)	\$ 0.12	\$ 0.05	\$ 0.77	\$ (0.68)	-188%

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS

At the end of fiscal 2013, the District had \$24.9 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$9,051,006 over last year.

Capital Assets at Year-End FY2013
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land	1,280,702	1,280,702			1,280,702	1,280,702
Land and Improvements	84,082	69,857	-		84,082	69,857
Buildings & Improvements	11,137,846	10,785,394	-		11,137,846	10,785,394
Technology Equipment	440,504	284,349	150	-	440,654	284,349
Vehicles	689,067	579,756	-		689,067	579,756
General Equipment	360,926	344,312	60,422	51,354	421,348	395,666
Construction In Progress	1,873,248	11,582,230	-		1,873,248	11,582,230

DEBT

Bonds were sold in FY2013 for \$1,390,000 to retire the 2003 bonds. Capital lease and general obligation debt decreased \$61,662 from FY 2012.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2012	2013
Capital Lease Obligations	\$ -	\$ -
General Obligation Bonds	<u>20.21</u>	<u>20.15</u>
Total Obligations	<u>\$ 20.21</u>	<u>\$ 20.15</u>

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

THE DISTRICT’S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$2,559,153, which is less than last year’s fund balance of \$2,854,785. The unassigned portion of the fund balance at the end of fiscal year 2013 is \$2,096,853, compared to \$2,654,391 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2013:

*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51	Fund 52	Fund 700
Local Revenue Sources	\$ 3,715,481	\$ 53,341	\$ -	\$ 634,322	\$ 32,321		\$ 311,811	\$ 93,351	\$ 1,824
State Revenue Sources	9,215,496	893,410	151,664	500,760		157,338	72,868	27,112	-
Federal Revenue Sources	-	1,775,537				-	690,642	-	-
Bond Issuance	-	-				1,390,000			
Transfers	-	37,093			555,000	676,535			
TOTALS	\$ 12,930,977	\$ 2,759,381	\$ 151,664	\$ 1,135,082	\$ 587,321	\$ 2,223,873	\$ 1,075,321	\$ 120,463	\$ 1,824
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51	Fund 52	Fund 52
Instruction	\$ 7,841,446	\$ 2,024,132							
Student Support Services	558,953	-							
Instructional Staff Support Services	359,213	180,251							
District Admin Support	622,290	186,677							
School Admin Support	960,782	-							
Business Support Services	673,743	65,354							
Plant Operation & Management	1,226,697	2,500							
Student Transportation	919,725	-							
Food Service Operations	-						1,015,584	-	-
Community Services	26,667	300,467							600
Debt Service						2,223,873			
Site Improvement	-								
Building Acquisitions & Construction					9,708,983				
Day Care Operations		-						130,746	-
Transfers	37,093		96,452	1,135,083					
TOTALS	\$ 13,226,609	\$ 2,759,381	\$ 96,452	\$ 1,135,083	\$ 9,708,983	\$ 2,223,873	\$ 1,015,584	\$ 130,746	\$ 600
Excess / (Deficit)	\$ (295,632)	\$ -	\$ 55,212	\$ (1)	\$ (9,121,662)	\$ -	\$ 59,737	\$ (10,283)	\$ 1,224

Comments on Budget Comparisons

- The District’s total general fund revenues for the fiscal year ended June 30, 2013, net of Inter-fund transfers and bond proceeds, were \$12.9 million including “On-Behalf” payments. On-Behalf payments were not included in budgeted revenue or expenditures.

**WASHINGTON COUNTY PUBLIC SCHOOL DISTRICT – WASHINGTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from state sources item with the ending actual revenue being \$91,074 more than budget or approximately 1 percent.

- The total cost of all general fund programs and services was \$10.78 million including transfers and excluding on behalf payments.

- General fund budget expenditures to actual varied by approximately \$1,327,086 in total.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2012-2013 with a 5% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates

- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the “shared” KTRS (which requires a .50% district match of gross pay for all KTRS eligible employees in FY2012 and will continue to increase to a 3.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district’s ability to continue programs.

- Continued Insufficient funding of the state transportation formula

Questions regarding this report should be directed to the Director of Finance, Judy Spalding or Superintendent, Robin Cochran at (859) 336.5470 or by mail at Washington County Board of Education, PO Box 72, Springfield, KY 40069.

Washington County School District
Statement of Net Position
June 30, 2013

Primary Government

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 13,645,557	\$ 202,167	\$ 13,847,724
Receivables (net)	526,026	66,789	592,815
Inventories		59,552	59,552
Land, improvements, and construction in progress	12,862,933		12,862,933
Other capital assets, net of depreciation	12,063,668	51,353	12,115,021
Total capital assets	<u>24,926,601</u>	<u>51,353</u>	<u>24,977,954</u>
Total assets	<u>39,098,184</u>	<u>379,861</u>	<u>39,478,045</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	<u>139,786</u>		<u>139,786</u>
LIABILITIES			
Accounts payable and accrued expenses	790,805	675	791,480
Accrued salaries and benefit payable	746,888	37,578	784,466
Accrued interest payable	243,168		243,168
Unearned revenue	239,315		239,315
Long-term liabilities:			
Due within 1 year:			
Bond obligations	835,000		835,000
Total due within 1 year	<u>835,000</u>	<u>-</u>	<u>835,000</u>
Due in more than 1 year:			
Bond obligations	19,315,000		19,315,000
KSBIT payable	304,193		304,193
Sick leave	340,557		340,557
Total due in more than 1 year	<u>19,959,750</u>	<u>-</u>	<u>19,959,750</u>
Total liabilities	<u>22,814,927</u>	<u>38,253</u>	<u>22,853,180</u>
NET POSITION			
Net Investment in capital assets	4,916,387	51,353	4,967,740
Restricted for:			
Nonexpendable for scholarships	7,907		7,907
Expendable restricted for site based	35,909		35,909
Expendable restricted for sick leave	121,670		121,670
Expendable restricted for capital projects	9,876,914		9,876,914
Expendable restricted for encumbrances	304,720		304,720
Expendable restricted for day care		26,899	26,899
Expendable restricted for food services		263,356	263,356
Unrestricted	1,159,536		1,159,536
Total net position	<u>\$ 16,423,044</u>	<u>\$ 341,608</u>	<u>\$ 16,764,652</u>

See the accompanying notes to the financial statements.

Washington County School District
Statement of Activities
Year ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 10,048,362	\$ 139,012	\$ 1,788,195	\$	\$ (8,121,155)		\$ (8,121,155)
Support Services							
Student	559,553	25,634	80,068		(453,851)		(453,851)
Instructional Staff	539,465		80,068		(459,396)		(459,396)
District Administration	780,940		106,758		(674,182)		(674,182)
School Administration	988,809		133,447		(855,362)		(855,362)
Business	739,097		106,758		(632,339)		(632,339)
Plant Operation & Maintenance	1,180,159		186,826	652,424	(340,909)		(340,909)
Student Transportation	919,725	28,643	133,447		(757,635)		(757,635)
Community Services Operations	327,134		53,379		(273,755)		(273,755)
Loss on retirement of assets	3,068				(3,068)		(3,068)
Amortization	15,532				(15,532)		(15,532)
Depreciation	702,809				(702,809)		(702,809)
Debt Service	24,790				(24,790)		(24,790)
Interest on general long-term debt	726,023			157,339	(568,684)		(568,684)
Total governmental activities	<u>17,555,466</u>	<u>193,290</u>	<u>2,668,947</u>	<u>809,763</u>	<u>(13,883,466)</u>		<u>(13,883,466)</u>
Business-type activities:							
Food service operations	1,006,365	303,640	763,510			\$ 60,785	60,785
Day care operations	130,746	91,661	27,112			(11,973)	(11,973)
Depreciation	9,218					(9,218)	(9,218)
Total business-type activities	<u>1,146,329</u>	<u>395,301</u>	<u>790,622</u>	<u>-</u>	<u>-</u>	<u>39,593</u>	<u>39,593</u>
Total primary government	\$ <u>18,701,795</u>	\$ <u>588,590</u>	\$ <u>3,459,570</u>	\$ <u>809,763</u>	<u>(13,883,466)</u>	<u>39,593</u>	<u>(13,843,873)</u>
General revenues:							
Taxes:							
Property taxes					2,745,079		2,745,079
Motor vehicle taxes					390,639		390,639
Franchise taxes					170,772		170,772
Utility taxes					709,071		709,071
State and formula grants					9,215,495		9,215,495
Unrestricted investment earnings					228,439	9,862	238,301
Total general revenues					<u>13,459,496</u>	<u>9,862</u>	<u>13,469,357</u>
Extraordinary item					(304,193)		(304,193)
Total general revenues and extraordinary item					<u>13,155,303</u>	<u>9,862</u>	<u>13,165,164</u>
Change in net position					(728,164)	49,455	(678,708)
Net position - beginning					17,387,330	292,153	17,679,483
Prior period adjustment					(236,123)		(236,123)
Restated beginning net position					<u>17,151,207</u>	<u>292,153</u>	<u>17,443,360</u>
Net position - ending					\$ <u>16,423,044</u>	\$ <u>341,608</u>	\$ <u>16,764,652</u>

Washington County School District
Balance Sheet
Governmental Funds
June 30, 2013

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 3,155,896	\$ -	\$ 10,179,737	\$ -	\$ 412,800	\$ 13,748,433
Receivables, net						
Taxes-current	75,743					75,743
Taxes-delinquent	3,397					3,397
Accounts	28,726	1,718				30,445
Intergovernmental-state		48,331				48,331
Intergovernmental-federal		368,111				368,111
Total assets	3,263,762	418,160	10,179,737	-	412,800	14,274,459
LIABILITIES						
Accounts payable	31,553	2,137	757,115			790,805
Accrued salaries and benefit payable	673,057	73,831				746,888
Cash shortage		102,876				102,876
Unearned revenue		239,315				239,315
Total liabilities	704,610	418,160	757,115	-	-	1,879,884
FUND BALANCE						
Nonspendable					7,907	7,907
Restricted			9,422,622		404,893	9,827,515
Committed	157,579					157,579
Assigned	304,720					304,720
Unassigned	2,096,853					2,096,853
Total fund balance	\$ 2,559,153	\$ -	\$ 9,422,622	\$ -	\$ 412,800	\$ 12,394,575

See the accompanying notes to the financial statements.

Washington County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
 June 30, 2013

Total fund balance per fund financial statements	\$	12,394,575
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		24,926,601
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		139,786
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(243,168)
Bonds payable		(20,150,000)
KSBIT payable		(304,193)
Noncurrent sick leave payable		(340,557)
		(20,738,018)
Net position of governmental activities	\$	16,423,044

See the accompanying notes to the financial statements.

Washington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 2,146,273	\$ -	\$ -	\$ -	\$ 598,806	\$ 2,745,079
Motor vehicle	390,639					390,639
Franchise	170,772					170,772
Utilities	709,071					709,071
Transportation	28,643					28,643
Tuition		21,638				21,638
Earnings on investments	170,732	634	20,257		36,816	228,439
Student activities		3,996				3,996
Other local revenue	99,351	27,073	12,064		524	139,012
Intergovernmental - state	9,215,495	893,410		157,339	652,424	10,918,668
Intergovernmental - federal		1,775,537				1,775,537
Total revenues	<u>12,930,977</u>	<u>2,722,289</u>	<u>32,321</u>	<u>157,339</u>	<u>1,288,570</u>	<u>17,131,495</u>
EXPENDITURES						
Instruction	7,841,446	2,024,132				9,865,578
Support Services						
Student	558,953				600	559,553
Instructional Staff	359,213	180,252				539,465
District Administration	622,290	186,677				808,968
School Administration	960,782					960,782
Business	673,743	65,354				739,097
Plant Operation & Maintenance	1,226,697	2,500				1,229,197
Student Transportation	919,725					919,725
Community Services Operations	26,667	300,467				327,134
Building acquisitions & construction			9,708,983			9,708,983
Debt Service				1,013,982		1,013,982
Total expenditures	<u>13,189,517</u>	<u>2,759,381</u>	<u>9,708,983</u>	<u>1,013,982</u>	<u>600</u>	<u>26,672,463</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(258,540)	(37,093)	(9,676,662)	(856,643)	1,287,970	(9,540,967)
OTHER FINANCING SOURCES (USES)						
Bond proceeds				1,390,000		1,390,000
Transfer to escrow agent				(1,200,509)		(1,200,509)
Bond discount				(9,383)		(9,383)
Operating transfers in		37,093	555,000	676,535		1,268,628
Operating transfers (out)	(37,093)				(1,231,535)	(1,268,628)
Total other financing sources and (uses)	<u>(37,093)</u>	<u>37,093</u>	<u>555,000</u>	<u>856,643</u>	<u>(1,231,535)</u>	<u>180,108</u>
NET CHANGE IN FUND BALANCE	(295,633)	-	(9,121,662)	-	56,435	(9,360,859)
FUND BALANCE-BEGINNING	2,854,785	-	18,544,284	49,399	349,682	21,798,150
PRIOR PERIOD ADJUSTMENT				(49,399)	6,683	(42,716)
RESTATE FUND BALANCE-BEGINNING	<u>2,854,785</u>	<u>-</u>	<u>18,544,284</u>	<u>-</u>	<u>356,365</u>	<u>21,755,434</u>
FUND BALANCE-ENDING	<u>\$ 2,559,153</u>	<u>\$ -</u>	<u>\$ 9,422,622</u>	<u>\$ -</u>	<u>\$ 412,800</u>	<u>\$ 12,394,575</u>

See the accompanying notes to the financial statements.

Washington County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2013

Net change in total fund balances per fund financial statements	\$	(9,360,859)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		9,060,226
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		139,786
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		61,662
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		(133,919)
Other		(6)
KSBIT payable extraordinary item		(304,193)
Noncurrent sick leave payable		(190,860)
		(728,164)
Change in net position of governmental activities	\$	(728,164)

See the accompanying notes to the financial statements.

Washington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,085,000	\$ 2,085,000	\$ 2,146,273	\$ 61,273
Motor vehicle	330,000	330,000	390,639	60,639
Franchise	100,000	100,000	170,772	70,772
Utilities	695,000	695,000	709,071	14,071
Transportation	22,000	22,000	28,643	6,643
Earnings on investments	125,000	125,000	170,732	45,732
Other local revenue	60,000	60,000	99,351	39,351
Intergovernmental - state	<u>6,677,900</u>	<u>6,677,900</u>	* <u>6,768,974</u>	<u>91,074</u>
Total revenues	<u>10,094,900</u>	<u>10,094,900</u>	<u>10,484,455</u>	<u>389,555</u>
EXPENDITURES				
Instruction	6,518,009	6,642,592	* 6,014,417	628,175
Support Services				
Student	596,093	478,089	* 451,084	27,005
Instructional Staff	301,065	299,588	* 277,465	22,123
District Administration	754,304	754,304	* 552,285	202,019
School Administration	806,171	803,794	* 806,193	(2,399)
Business	561,504	561,504	* 604,430	(42,926)
Plant Operation & Maintenance	1,504,824	1,504,824	* 1,166,155	338,669
Student Transportation	1,001,922	1,001,922	* 848,413	153,509
Community Services	22,050	23,465	* 22,554	911
Total expenditures	<u>12,065,942</u>	<u>12,070,082</u>	<u>10,742,995</u>	<u>1,327,086</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(1,971,042)	(1,975,182)	(258,540)	1,716,642
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	<u>(50,381)</u>	<u>(50,381)</u>	<u>(37,093)</u>	<u>13,288</u>
Total other financing sources and (uses)	<u>(50,381)</u>	<u>(50,381)</u>	<u>(37,093)</u>	<u>13,288</u>
NET CHANGE IN FUND BALANCE	(2,021,423)	(2,025,563)	(295,633)	1,729,930
FUND BALANCE-BEGINNING	<u>2,652,423</u>	<u>2,652,423</u>	<u>2,854,785</u>	<u>202,362</u>
FUND BALANCE-ENDING	\$ <u><u>631,000</u></u>	\$ <u><u>626,860</u></u>	\$ <u><u>2,559,153</u></u>	\$ <u><u>1,932,293</u></u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$2,446,521.

See the accompanying notes to the financial statements.

Washington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Tuition	\$ 14,000	\$ 21,637	\$ 21,638	\$ 1
Earnings on investments	1,000	388	634	246
Student activities	6,070	7,062	3,996	(3,065)
Other local revenue	122,181	123,960	27,073	(96,886)
Intergovernmental - state	644,454	737,663	893,410	155,747
Intergovernmental - federal	1,535,002	1,542,483	1,775,537	233,054
Total revenues	<u>2,322,707</u>	<u>2,433,192</u>	<u>2,722,289</u>	<u>289,096</u>
EXPENDITURES				
Instruction	1,864,522	1,974,681	2,024,132	(49,451)
Support Services				
Student	15,207	1,729		1,729
Instructional Staff	157,224	152,628	180,252	(27,624)
District Administration			186,677	(186,677)
Business	51,000	41,337	65,354	(24,017)
Plant Operation & Maintenance	1,000	1,740	2,500	(760)
Community Services Operations	284,135	297,938	300,467	(2,529)
Total expenditures	<u>2,373,088</u>	<u>2,470,053</u>	<u>2,759,381</u>	<u>(289,328)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(50,381)	(36,861)	(37,093)	(232)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	50,381	36,861	37,093	232
Total other financing sources and (uses)	<u>50,381</u>	<u>36,861</u>	<u>37,093</u>	<u>232</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Washington County School District
Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
ASSETS			
Cash and cash equivalents	\$ 172,202	\$ 29,965	\$ 202,167
Receivables	65,129	1,660	66,789
Inventories	59,552		59,552
Capital assets:			
Other capital assets, net of depreciation	51,353		51,353
Total assets	348,236	31,625	379,861
LIABILITIES			
Accrued salaries and benefits payable	32,852	4,726	37,578
Accounts payable and accrued expenses	675		675
Total liabilities	33,527	4,726	38,253
NET POSITION			
Net Investment in capital assets	51,353	-	51,353
Restricted for:			
Expendable restricted for day care operations		26,899	26,899
Expendable restricted for food service	263,356		263,356
Total net position	\$ 314,709	\$ 26,899	\$ 341,608

See the accompanying notes to the financial statements.

WASHINGTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
Year ended June 30, 2013

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
OPERATING REVENUES			
Lunchroom sales	\$ 302,476	\$ -	\$ 302,476
Tuition		91,661	91,661
Other revenue from local sources	1,164		1,164
Total operating revenues	303,640	91,661	395,301
OPERATING EXPENSES			
Depreciation	9,218		9,218
Food service operations			
Salaries and benefits	505,182		505,182
Operational	501,184		501,184
Day care operations			
Salaries and benefits		126,385	126,385
Operational		4,361	4,361
Total operating expenses	1,015,584	130,746	1,146,329
Operating income (loss)	(711,944)	(39,085)	(751,029)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	633,330		633,330
State grants	9,725	10,552	20,276
State on-behalf payments received	63,143	16,560	79,703
Commodities received	57,313		57,313
Earnings from investments	8,171	1,691	9,862
Total nonoperating revenues	771,681	28,803	800,484
CHANGE IN NET POSITION	59,737	(10,282)	49,455
NET POSITION-BEGINNING	254,972	37,181	292,153
NET POSITION-ENDING	\$ 314,709	\$ 26,899	\$ 341,608

WASHINGTON COUNTY SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
for the year ended June 30, 2013

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 303,640	\$ 91,661	\$ 395,301
Payments to suppliers	(566,129)	(4,361)	(570,490)
Payments to employees	(505,182)	(117,352)	(622,534)
Net cash provided (used) by operating activities	(767,671)	(30,052)	(797,723)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants and contributions	763,510	27,112	790,622
Net cash provided (used) by noncapital financing activities	763,510	27,112	790,622
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	8,171	1,691	9,862
Net cash provided (used) by investing activities	8,171	1,691	9,862
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,010	(1,250)	2,761
CASH AND CASH EQUIVALENTS-BEGINNING	168,192	31,214	199,406
CASH AND CASH EQUIVALENTS-ENDING	\$ 172,202	\$ 29,965	\$ 202,167
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (711,944)	\$ (39,085)	\$ (751,029)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	9,218	-	9,218
Changes in assets and liabilities:			
Receivables	(65,091)	4,307	(60,784)
Inventories	(33,382)		(33,382)
Accruals	33,527	4,726	38,253
Net cash used by operating activities	\$ (767,671)	\$ (30,052)	\$ (797,723)
NONCASH NONCAPITAL FINANCING ACTIVITIES			
During the year, the district received \$57,313 of food commodities from the U.S. Department of Agriculture.			

Washington County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>School Activity Fund</u>	<u>Private Purpose Trust</u>	<u>Fiduciary Fund</u>
ASSETS			
Cash and cash equivalents	\$ 123,191	\$ 20,966	\$ 144,157
Accounts receivable	<u>1,470</u>		<u>1,470</u>
Total Assets	<u><u>124,661</u></u>	<u><u>20,966</u></u>	<u><u>145,627</u></u>
LIABILITIES			
Accounts payable	496		496
Due to student groups	<u>124,166</u>		<u>124,166</u>
Total Liabilities	<u><u>124,661</u></u>	<u><u>-</u></u>	<u><u>124,661</u></u>
NET POSITION HELD IN TRUST	<u><u>\$ -</u></u>	<u><u>\$ 20,966</u></u>	<u><u>\$ 20,966</u></u>

See the accompanying notes to the financial statements.

Washington County School District
Statement of Changes in Net Position
Fiduciary Funds
Year ended June 30, 2013

		<u>Private Purpose Trust</u>
Additions		
Trust activities	\$	453
Deductions		
Benefits paid		<u>2,000</u>
Decrease in net position		(1,547)
Net position, June 30, 2012		<u>22,513</u>
Net position, June 30, 2013	\$	<u><u>20,966</u></u>

See the accompanying notes to the financial statements.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District, for financial purposes, includes all of the funds relevant to the operation of the Washington County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District 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:

Washington County Board Of Education Finance Corporation

The Board authorized establishment of the Washington County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Washington County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The statement of net Position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

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 always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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).

SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

(D) Debt Service Fund

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

(E) Permanent Fund

The Private Purpose Trust Fund is to be spent based on the trust agreement and has a principal balance of \$7,907 that must remain intact.

II. Proprietary Funds (Enterprise Funds)

(A) Food Service Fund

The School 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(B) Child Care Fund

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

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

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

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

Basis of Accounting

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

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

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – 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 the revenues, expenses, and changes in net Position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned 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 Tax Revenues – 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.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.549 (including exonerations) per \$100 valuation of real property, \$.549 per \$100 valuation for business personal property and \$.555 per \$100 valuation for motor vehicles.

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

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 government funds. These assets are reported in the government activities column of the government-wide financial 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 one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

Governmental Activities

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund 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, a certified and classified 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 non-current portion of the liability is not reported.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements inventories are stated at cost and are expended when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Prepaid Assets

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

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

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 non-operating 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.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

		Bank Balance
		<u>Demand</u>
<u>Springfield State Bank</u>		
FDIC	\$	250,000
Securities pledged to district		<u>8,506,797</u>
Bank balance	\$	<u><u>8,756,797</u></u>
		Bank Balance
		<u>Demand</u>
<u>BB&T Bank</u>		
FDIC	\$	250,000
Securities pledged to district		<u>5,653,811</u>
Bank balance	\$	<u><u>5,903,811</u></u>
		Book Balance
		<u>Cash and equivalents</u>
Governmental Activities	\$	13,645,557
Business-type Activities		202,167
School Activity Funds		<u>144,157</u>
Total carrying amount	\$	<u><u>13,991,881</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Private Purpose Trust Fund holds an investment in the amount of \$7,907 in a money market account held by Edward Jones.

NOTE D – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 1,280,702	\$ -	\$ -	\$ 1,280,702
Land improvements	481,972	-	-	481,972
Buildings	16,191,659	17,432	-	16,209,091
Technology equipment	1,463,449	8,081	12,682	1,458,848
Vehicles	1,914,335	-	-	1,914,335
General equipment	829,010	31,606	-	860,616
Construction in progress	1,873,248	9,708,983	-	11,582,230
Total at historical cost	<u>\$ 24,034,376</u>	<u>\$ 9,766,102</u>	<u>\$ 12,682</u>	<u>\$ 33,787,795</u>
Less: Accumulated depreciation				
Land improvements	\$ 397,890	\$ 14,226	\$ -	\$ 412,116
Buildings	5,053,813	369,884	-	5,423,697
Technology equipment	1,022,945	161,168	9,614	1,174,499
Vehicles	1,225,268	109,311	-	1,334,579
General equipment	468,084	48,220	-	516,304
Total accumulated depreciation	<u>\$ 8,168,000</u>	<u>\$ 702,809</u>	<u>\$ 9,614</u>	<u>\$ 8,861,195</u>
Governmental Activities Capital Assets-net	<u>\$ 15,866,376</u>	<u>\$ 9,063,293</u>	<u>\$ 3,068</u>	<u>\$ 24,926,601</u>
<u>Business-Type Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Technology equipment	\$ 5,390	\$ -	\$ -	\$ 5,390
General equipment	335,559	-	1,328	334,231
Total at historical cost	<u>\$ 340,949</u>	<u>\$ -</u>	<u>\$ 1,328</u>	<u>\$ 339,621</u>
Less: Accumulated depreciation				
Technology equipment	\$ 5,240	\$ 150	\$ -	\$ 5,390
General equipment	275,137	9,069	1,328	282,878
Total accumulated depreciation	<u>\$ 280,377</u>	<u>\$ 9,218</u>	<u>\$ 1,328</u>	<u>\$ 288,268</u>
Business-Type Activities Capital Assets-net	<u>\$ 60,572</u>	<u>\$ (9,218)</u>	<u>\$ -</u>	<u>\$ 51,353</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Washington County School District Finance Corporation aggregating \$20,150,000 and \$835,000 is the portion due within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012</u>			<u>2013</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2003	\$ 2,115,000	12/1/2023	2.0 - 4.3%	\$ 1,405,000		\$ 1,405,000	\$ -
2008A	3,910,000	8/1/2023	2.5 - 3.25%	3,425,000		210,000	3,215,000
2008B	795,000	8/1/2016	2.3 - 2.75%	460,000		90,000	370,000
2012	15,185,000	8/1/2032	2.0 - 3.5%	15,185,000		-	15,185,000
2013R	\$ 1,390,000	12/1/2023	1.3%	-	1,390,000	10,000	1,380,000
Totals				\$ 20,475,000	\$ 1,390,000	\$ 1,715,000	\$ 20,150,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following 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 at dates and redemption premiums specified in each issue. Assuming no issues are called prior to 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:

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		
2014	\$ 653,139	\$ 517,082	\$ 181,861	\$ 71,236	\$ 835,000	588,318
2015	669,138	501,476	185,862	67,235	855,000	568,710
2016	679,984	485,467	190,016	63,079	870,000	548,546
2017	704,657	468,824	190,343	58,828	895,000	527,653
2018	714,648	451,295	150,352	55,199	865,000	506,494
2019-2023	3,900,347	1,937,686	709,653	228,780	4,610,000	2,166,466
2024-2028	4,603,393	1,286,124	576,607	143,926	5,180,000	1,430,050
2029-2032	5,441,219	481,710	598,781	50,680	6,040,000	532,390
	\$ 17,366,525	\$ 6,129,664	\$ 2,783,475	\$ 738,963	\$ 20,150,000	\$ 6,868,626

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$304,193. 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. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

NOTE F – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Plan Description – The Washington 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 and beneficiaries of 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 Kentucky Department of Education (KDE).

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

Funding Policy – Contribution rates are established by KRS. Members 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 hired before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution 14.105%.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Funding policy –In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional 1.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Washington County School System's total payroll for the year was \$10,098,343. The payroll for employees covered under KTRS was \$7,684,648. For the year ended June 30, 2013, the Commonwealth contributed \$923,152 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$100,683, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,124,519, \$1,131,670, and 1,055,374 respectively.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$444,612 of the employee's compensation during the fiscal year ended June 30, 2013.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$561,924 \$454,384, and \$533,544 respectively.

NOTE G – COMMITMENTS

The District has committed \$121,670 in the general fund for future payouts for accrued sick leave, \$35,909 for site base carryforward, and \$9,422,622 for future construction.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE H – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 9,422,622	Future Construction
Capital Outlay	75,183	School Facilities Construction Commission
FSPK	329,710	School Facilities Construction Commission
Day Care	26,899	Day Care Operations
Food Service	\$ 263,356	Food Service Operations

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

NOTE K – 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, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated and includes Workers’ Compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

NOTE M – DEFICIT FUND AND OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (728,164)
General Fund	(295,633)
Construction Fund	(9,121,662)
Day Care Fund	\$ (10,282)

NOTE N - COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Special Revenue Fund	\$ 37,093	KETS Matching
Capital Outlay Fund	Debt Service Fund	72,345	Operating Expenditures
FSPK Fund	Construction Fund	555,000	Construction
FSPK Fund	Debt Service Fund	\$ 604,190	Construction

NOTE P – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Washington County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, School Food Services, and Day Care Funds. The amounts recorded for both revenues and expenditures (expenses) are \$2,446,521 for the General Fund and \$63,143 for the School Food Service Fund and \$16,560 for the Day Care Fund.

NOTE Q – CHANGE IN ACCOUNTING POLICY

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net position. The term net position is no longer used and has been replaced with

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to Note R-Prior Period Adjustment to see how the change in accounting policy affects net position.

NOTE R – PRIOR PERIOD ADJUSTMENT

Governmental Activities

Cash was overstated by \$49,399, bond issue costs of \$193,407 are no longer capitalized due to GASB 63 and GASB 65 implementation, and the Private Purpose Trust Fund of \$6,683 was not recorded last year causing net position to be overstated as follows:

Net Position July 1, 2012	\$ 17,387,330
Prior Period Adjustment	(236,123)
Restated Net Position July 1, 2012	<u>\$ 17,151,207</u>

Governmental Funds

Cash was overstated by \$49,399 and the Private Purpose Trust Fund of \$6,683 was not recorded last year causing governmental fund balance to be overstated as follows:

Fund Balance July 1, 2012	\$ 21,798,150
Prior Period Adjustment	(42,716)
Fund Balance July 1, 2012	<u>\$ 21,755,434</u>

School Activity Funds

The Washington County High Charitable Gaming was combined with Washington County High School causing beginning balances to be overstated by \$4,632 for Washington County High School and understated by \$4,632 for Washington County High Charitable Gaming. The prior year audit did not include the Private Purpose trust causing the beginning balance to be understated by \$22,513. This caused the school activity fund balance to be understated as follows:

Fund Balance July 1, 2012	\$ 112,670
Prior Period Adjustment	22,513
Restated Fund Balance July 1, 2012	<u>\$ 135,183</u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 21, 2013, the date of the audit report.

Washington County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2013

	Other Governmental Funds			
	Capital Outlay	FSPK	Permanent	Total
Assets				
Cash and Cash Equivalents	\$ 75,183	\$ 329,710	\$ 7,907	\$ 412,800
Total Assets	75,183	329,710	7,907	412,800
Fund Balances				
Nonspendable			7,907	7,907
Restricted	75,183	329,710		404,893
Total Fund Balances	\$ 75,183	\$ 329,710	\$ 7,907	\$ 412,800

See the accompanying notes to the financial statements.

Washington County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2013

	Other Governmental Funds			
	Capital Outlay	FSPK	Permanent	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 598,806	\$ -	\$ 598,806
Earnings from investments		35,516	1,300	36,816
Other local revenue			524	524
Intergovernmental - State	151,664	500,760		652,424
	151,664	500,760		652,424
Total Revenues	151,664	1,135,082	1,824	1,288,570
Expenditures				
Scholarships			600	600
			600	600
Total Expenditures	-	-	600	600
Excess (Deficit) of Revenues Over Expenditures	151,664	1,135,082	1,224	1,287,970
Other Financing Sources (Uses)				
Transfers (Out)	(96,452)	(1,135,083)		(1,231,535)
Total Other Financing Sources (Uses)	(96,452)	(1,135,083)	-	(1,231,535)
Net change in fund balances	55,212	(0)	1,224	56,435
Fund Balance Beginning	19,971	329,711	-	349,682
Prior Period Adjustment			6,683	6,683
Restated Fund Balance-Beginning	19,971	329,711	6,683	356,365
Fund Balance ending	\$ 75,183	\$ 329,710	\$ 7,907	\$ 412,800

See the accompanying notes to the financial statements.

Washington County School District
Combining Balance Sheet - School Activity and Private Purpose Trust
As of June 30, 2013

	SCHOOL ACTIVITY FUNDS						
	<u>WASHINGTON COUNTY HIGH SCHOOL</u>	<u>WASHINGTON CO HIGH CHARITABLE GAMING</u>	<u>WASHINGTON COUNTY MIDDLE SCHOOL</u>	<u>WASHINGTON COUNTY ELEMENTARY</u>	<u>NORTH WASHINGTON ELEMENTARY</u>	<u>PRIVATE PURPOSE TRUST</u>	<u>FIDUCIARY FUND TOTALS</u>
ASSETS							
Cash and cash equivalents	\$ 71,867	\$ 1,279	\$ 9,804	\$ 23,801	\$ 16,440	\$ 20,966	\$ 144,157
Accounts receivable	-	-	-	-	1,470	-	1,470
Total Assets	<u>71,867</u>	<u>1,279</u>	<u>9,804</u>	<u>23,801</u>	<u>17,910</u>	<u>20,966</u>	<u>145,627</u>
LIABILITIES							
Accounts payable	473	-	-	-	23	-	496
Total Liabilities	<u>473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>496</u>
FUND BALANCE							
Scholarships						20,966	20,966
School Activities	71,394	1,279	9,804	23,801	17,887		124,166
Total Liabilities and Fund Balance	<u>\$ 71,867</u>	<u>\$ 1,279</u>	<u>\$ 9,804</u>	<u>\$ 23,801</u>	<u>\$ 17,910</u>	<u>\$ 20,966</u>	<u>\$ 145,627</u>

See the accompanying notes to the financial statements.

Washington County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance-School Activity and Private Purpose Trust
For the period ended June 30, 2013

	SCHOOL ACTIVITY FUNDS							
	WASHINGTON COUNTY HIGH SCHOOL	WASHINGTON CO HIGH CHARITABLE GAMING	WASHINGTON COUNTY MIDDLE SCHOOL	WASHINGTON COUNTY ELEMENTARY	NORTH WASHINGTON ELEMENTARY	PRIVATE PURPOSE TRUST	FIDUCIARY FUND TOTALS	
REVENUES								
Student revenues	\$ 201,149	\$ 3,202	\$ 43,621	\$ 25,578	\$ 90,406	\$ -	\$ 363,957	
Other local revenue						453	453	
Total revenues	<u>201,149</u>	<u>3,202</u>	<u>43,621</u>	<u>25,578</u>	<u>90,406</u>	<u>453</u>	<u>364,410</u>	
EXPENDITURES								
Student activities	196,883	6,555	43,775	17,805	87,443		352,461	
Community services						2,000	2,000	
Total expenditures	<u>196,883</u>	<u>6,555</u>	<u>43,775</u>	<u>17,805</u>	<u>87,443</u>	<u>2,000</u>	<u>354,461</u>	
Excess (Deficit) of Revenues Over Expenses	4,266	(3,353)	(154)	7,773	2,963	(1,547)	9,949	
FUND BALANCE JULY 1, 2012	71,761	-	9,958	16,028	14,924	-	112,670	
PRIOR PERIOD ADJUSTMENT	<u>(4,632)</u>	<u>4,632</u>				<u>22,513</u>	<u>22,513</u>	
RESTATED FUND BALANCE JULY 1, 2012	<u>67,128</u>	<u>4,632</u>	<u>9,958</u>	<u>16,028</u>	<u>14,924</u>	<u>22,513</u>	<u>135,183</u>	
FUND BALANCE JUNE 30, 2013	<u>\$ 71,394</u>	<u>\$ 1,279</u>	<u>\$ 9,804</u>	<u>\$ 23,801</u>	<u>\$ 17,887</u>	<u>\$ 20,966</u>	<u>\$ 145,132</u>	

See the accompanying notes to the financial statements.

Washington County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Washington County High School
For the period ended June 30, 2013

	FUND BALANCE				FUND BALANCE	
	July 1, 2012	REVENUES	EXPENSES	TRANSFERS	June 30, 2013	
GENERAL FUND	\$ 1,654	\$ 2,026	\$ 2,477	\$ 1,935	\$ 3,137	
ACADEMIC TEAM	865	35	258	-	642	
SENIOR REWARDS TRIP	98	-	-	-	98	
CRYPTOZOOLOGY CLUB	488	-	488	-	0	
19TH DISTRICT BASKETB	-	10,212	8,248	-	1,964	
2010 FB DISTRICT PLAYO	-	-	(70)	(70)	-	
KUNA	5	-	5	-	-	
AP CLASSES	1,351	14,319	12,368	-	3,303	
STLP	527	-	317	1,057	1,267	
FEES/FT/GRADUATION/D	1,197	1,905	1,660	-	1,441	
PROFESSIONAL DEVELO	1,329	-	1,178	-	150	
CATS ASSESSMENT	-	-	-	-	-	
CBWTP	195	-	117	-	77	
TEXTBOOKS FEES	777	5,156	313	-	5,619	
LOCKER FEES	8,940	2,720	1,035	15	10,640	
CONCESSIONS	3,931	14,329	8,642	(6,567)	3,050	
FACULTY	149	-	-	-	149	
RESOURCE ROOM	159	-	-	-	159	
MAGAZINE DRIVE	815	-	-	(815)	-	
FRYSC	200	829	190	(15)	824	
AFRO-AMERICAN CLUB	27	-	-	-	27	
FCA	4	95	80	-	19	
BETA CLUB	1,116	161	673	-	604	
DECA	2,434	527	(760)	(3,721)	-	
YOUTH ENTREPRENEUR	173	-	173	-	-	
DRAMA CLUB	1,235	-	-	-	1,235	
FFA	1,667	14,745	14,093	1,057	3,376	
FCCLA	59	38,595	38,944	1,057	768	
PEP CLUB	438	1,251	1,346	-	343	
PROJECT GRADUATION	3,198	12,000	14,746	-	451	
SPANISH/WORLD LANGU	737	-	-	-	737	
SPORTMANSCLUB	13	258	258	-	13	
FRENCH	180	-	-	-	180	
NHS	92	1,196	970	-	319	
STUDENT COUNCIL	101	1,495	223	-	1,373	
GREENHOUSE	519	8,667	5,790	-	3,396	
ART	676	3,057	2,619	-	1,114	
NATL ART HONOR SOCIE	116	102	-	-	218	
BAND	24	-	-	-	24	
CASTLE CLUB	8	-	-	-	8	
CHOIR	249	-	-	-	249	
ENGLISH	224	-	-	-	224	
JOURNALISM	568	-	-	(568)	-	
MATH	1	-	-	-	1	
P.E.	12	-	-	-	12	
SCIENCE	29	-	-	-	29	
SPECIAL ED	49	-	-	-	49	
ARTS & HUMANITIES	36	-	-	-	36	
ATHLETIC	12,625	43,630	58,557	6,637	4,335	
ATHLETIC UNIFORM	1,118	-	1,118	-	-	
SOFTBALL	2,314	-	(1)	-	2,315	
BOYS GOLF	139	-	-	-	139	
BOYS BASKETBALL	53	-	-	-	53	
BASEBALL	225	1,050	300	-	975	
CHEERLEADERS	456	1,054	1,018	-	492	
VOLLEYBALL	45	2,809	2,854	-	-	
TRACK	-	610	426	-	184	
BASS FISHING	-	2,102	1,264	-	838	
SOCCER	458	-	-	-	458	
ARCHERY	106	-	-	-	106	
PROM	1,913	5,576	6,240	-	1,249	
LIBRARY	4,645	5,412	4,295	-	5,763	
YEARBOOK	6,364	5,227	4,431	-	7,161	
JASON CURTSINGER SC	3	-	-	(3)	-	
Totals	\$ 67,128	\$ 201,149	\$ 196,883	\$ 0	\$ 71,394	

See the accompanying notes to the financial statements.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$57,313.

WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE 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
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	N/A	\$ 124,439
Fiscal Year 12		7760005 12	N/A	27,447
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	373,870
Fiscal Year 12		7750002 12	N/A	92,423
* Summer Food Program	10.559			
Fiscal Year 12		7740023 12	N/A	13,724
Fiscal Year 12		7690024 12	N/A	1,426
Child Nutrition Cluster Subtotal				<u>633,330</u>
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950	N/A	57,313
Total US Department of Agriculture				<u>690,643</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	449,123	362,058
Fiscal Year 12		3100002 12	391,693	126,372
Fiscal Year 12D		3100002 12	61,880	14,065
Fiscal Year 11		3100002 11	458,059	9,160
* Title I School Improvement Part (A)	84.010A			
Fiscal Year 13		3100202 13	223,428	179,185
Fiscal Year 12		3100202 12	29,923	22,698
				<u>713,538</u>
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	422,185	2,972
Migrant Education	84.011A			
Fiscal Year 13		3110002 13	34,000	30,828
Special Education Grants to States	84.027A			
Fiscal Year 13P		3810002 13	17,241	10,060
Fiscal Year 12		3810002 12	393,957	315,451
Fiscal Year 11		3810002 11	386,599	111,298
Special Education Preschool	84.173A			
Fiscal Year 12		3800002 12	38,131	30,684
Fiscal Year 11		3800002 11	38,692	8,148
Special Education Cluster Subtotal				<u>475,642</u>
Rural Education	84.358B			
Fiscal Year 13		3140002 13	32,421	15,190
Fiscal Year 12		3140002 12	35,738	26,848
				<u>42,038</u>
Title III Limited English Proficiency	84.365A			
Fiscal Year 13		3300002 13	10,243	4,823
Fiscal Year 12		3300002 12	10,854	7,663
Fiscal Year 11		3300002 11	8,148	1,574
				<u>14,061</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 13		4621032 13	15,199	15,199
Fiscal Year 12		4621032 12	16,697	169
Fiscal Year 12S		4621032 12	1,200	1,200
Fiscal Year 11		4621232 11	15,901	302
				<u>16,870</u>
Title II Teacher Quality	84.367A			
Fiscal Year 13		3230002 13	99,095	44,839
Fiscal Year 12		3230002 12	99,633	17,539
Fiscal Year 11		3230003 11	117,422	10,868
				<u>73,246</u>
Education Technology State Grants	84.318X			
Fiscal Year 11		3210002 11	1,527	10
Education Technology State Grants, Recovery Act	84.386A			
Fiscal Year 10		3210002 10	7,101	450
Educational Technology State Grants Cluster Subtotal				<u>460</u>

WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE 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
Twenty-First Century Community Learning Centers	84.287			
Fiscal Year 12W		3400002 12	67,500	52,557
Fiscal Year 12S		3400002 12	10,000	7,972
Fiscal Year 12N		3400002 12	67,500	60,949
Fiscal Year 11W		3400002 11	75,000	22,109
Fiscal Year 11J		3400002 11	19,000	19,000
Fiscal Year 11N		3400002 11	75,000	24,089
				<u>186,677</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	18,291	8,983
Passed Through Commonwealth of Kentucky				
Adult Education-Community Based Work Transition	84.002			
Fiscal Year 13		3713	33,686	30,824
Total US Department of Education				<u><u>1,596,139</u></u>
US Department of Justice				
Passed Through Substance Abuse & Mental Health Services Administration				
Drug Free Community Support	16.279			
Fiscal Year 13		5003	125,000	79,416
Fiscal Year 12		5002	125,000	47,719
Total US Department of Justice				<u><u>127,135</u></u>
Total Expenditure of Federal Awards			\$	<u><u>2,413,916</u></u>

* Major Programs

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*

To the Washington County Board of Education and
State Committee for School District Audits
Springfield, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Washington County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School Districts' Audit Contract and Requirements or Appendices. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Washington County School District, in a separate letter dated October 21, 2013.

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.

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

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

To the Washington County Board of Education and
State Committee for School District Audits
Springfield, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Washington 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 Washington County School District's major federal programs for the year ended June 30, 2013. Washington 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 Washington 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; and 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 Washington 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 Washington County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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.

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No

Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Title I [CFDA 84.010A]
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Dollar threshold of Type A and B programs	\$300,000
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Low risk auditee?	Yes
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FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

WASHINGTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no prior year findings.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior year findings.

MANAGEMENT LETTER

Washington County School District
Springfield, Kentucky

In planning and performing our audit of the financial statements of the Washington County School District for the year ended June 30, 2013, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Washington County School District. The conditions observed are as follows:

NORTH WASHINGTON ELEMENTARY

1-13

Statement of Condition: There were instances of deposit slips not having two-party verification.

Recommendation for Correction: After preparing the deposit slip, the bookkeeper should have someone else review and initial the slip before taking it to the bank.

Management Response to the Recommendation: The bookkeeper will have someone else review and initial the deposit slip before taking deposits to the bank.

2-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: Steps have been put into place to ensure all money collected and the supporting documentation will be turned into the school treasurer daily.

WASHINGTON COUNTY ELEMENTARY

3-13

Statement of Condition: There were instances of deposit slips not having two-party verification.

Recommendation for Correction: After preparing the deposit slip, the bookkeeper should have someone else review and initial the slip before taking it to the bank.

Management Response to the Recommendation: The bookkeeper will have someone else review and initial the deposit slip before taking deposits to the bank.

WASHINGTON COUNTY MIDDLE SCHOOL

No conditions.

WASHINGTON COUNTY HIGH SCHOOL

4-13

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

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The Fund Raiser Worksheet will be completed by the responsible sponsor. The principal will review and give to the school treasurer to file.

5-13

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

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Inventory Control Worksheets will be completed monthly on all activities that require one and turned into the principal for review.

6-13

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: The teacher/sponsor's will ensure the Multiple Receipt Forms are filled out daily and signed properly by the student when the transfer of cash occurs from the student to the teacher/sponsor.

7-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies greater than \$100 will deposited daily and for amounts under \$100 at least weekly. The total deposit will be matched to the total receipts since the last deposit and each deposit will be verified by a second person daily.

8-13

Statement of Condition: Paid invoices are not marked "Paid" with the check number and date paid noted on the invoice.

Recommendation for Correction: After the school treasurer writes/prints the check, the invoice is to be clearly marked "Paid" along with the check number and date paid noted.

Management's Response to the Recommendation: The school treasurer will clearly mark "Paid" with the check number and date paid on invoices are checks are printed.

9-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: The school treasurer will write a receipt at the time monies are received.

10-13

Statement of Condition: Lack of segregation in current process of collecting money from students.

Recommendation for Correction: Bookkeeper cannot collect money from students or teachers directly and cannot issue themselves a receipt. All money must be collected by someone other than the bookkeeper and recorded on a Multiple Receipt Form. Bookkeeper will then write a receipt to the person turning the money in.

Management's Response to the Recommendation: Bookkeeper will not collect money from students or teachers directly. Bookkeeper will write a receipt to the person turning in money.

WASHINGTON COUNTY CHARITABLE GAMING FUND

No conditions

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

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

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
October 21, 2013