

Revised Audit

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**BATH COUNTY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014, on our consideration of Bath County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Kelley Galloway Smith Doobly, PSC*

October 17, 2014

**BATH COUNTY SCHOOL DISTRICT  
OWINGSVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Bath County School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$5,454,349 and the ending balance was approximately \$10,113,323, an increase of approximately \$4,658,974 for the year primarily due to unspent construction funds.
- The General Fund had \$14,737,556 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$14,558,704 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt increased by \$5,646,550 during the current fiscal year.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9 and 10 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS

administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 11 through 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 36 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$12.4 million as of June 30, 2014.

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

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

#### Net Position for the period ending June 30, 2014

	2014	2013
Current Assets	\$ 10,469,639	\$ 6,237,114
Noncurrent Assets	<u>25,812,712</u>	<u>21,557,560</u>
Total Assets	<u>36,282,351</u>	<u>27,794,674</u>
Deferred Outflows	338,059	380,789
Current Liabilities	4,743,315	2,180,725
Noncurrent Liabilities	<u>19,428,623</u>	<u>14,064,370</u>
Total Liabilities	<u>24,171,938</u>	<u>16,245,095</u>
Net Position		
Net investment in capital assets	5,624,860	7,159,655
Restricted	3,107,834	1,405,431
Unreserved Fund Balance	<u>3,715,778</u>	<u>3,365,282</u>
Total Net Position	<u>\$ 12,448,472</u>	<u>\$ 11,930,368</u>

## Comments on Budget Comparisons

- The District's total governmental funds revenues for the fiscal year ended June 30, 2014, net of interfund transfers and bond proceeds were \$18,911,141, compared with \$19,343,419 in 2013. This decrease is a result of a decrease in grant funding in the current year.
- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$2.2 million less than budget or approximately 15.1%.
- The total cost of all programs and services for governmental funds was \$23,312,612, compared with \$19,454,915 in 2013. This increase is due to large construction projects in the current year.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2014, with comparison to 2013.

	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>		
Local Revenue Sources	\$ 3,029,085	\$ 2,887,924
State and Federal Revenue Sources	<u>17,337,049</u>	<u>18,020,834</u>
Total Revenues	<u>20,366,134</u>	<u>20,908,758</u>
<b>Expenses:</b>		
Instruction	10,428,271	10,482,210
Student Support Services	1,152,652	1,118,269
Instructional Support	552,036	811,863
District Administration	963,595	898,319
School Administration	1,011,961	1,028,162
Business and Other Support Services	348,199	599,920
Plant Operations	1,764,275	1,928,310
Student Transportation	1,284,609	1,434,444
Food Service Operations	1,317,858	1,379,658
Child Care Services	156,364	161,163
Community Services	323,549	333,448
Debt service	<u>544,661</u>	<u>823,149</u>
Total Expenses before KSBIT	19,848,030	20,998,915
Extraordinary item – KSBIT	<u>-</u>	<u>143,640</u>
Total Expenses	<u>19,848,030</u>	<u>21,142,555</u>
Revenues Over (Under) Expenses	<u>\$ 518,104</u>	<u>\$ (233,797)</u>

## Governmental Funds Revenue

The majority of revenue was derived from state funding making up 71% and federal funding of 13% of total revenue. Local revenues make up 16% of total revenue (14% in 2013).

## District-Wide Support Allocation

District-wide support services expenses were Transportation 6%, Maintenance & Operations 9%, and Business Functions 2%.

## **Capital Assets**

At the end of June 30, 2014, the District's investment in capital assets for its governmental and business-type activities was \$25,812,712, representing an increase of \$4,255,152, net of depreciation, from the prior year. Construction in progress increased significantly due to major renovations at Owingsville Elementary during the fiscal year ended June 30, 2014.

## **Debt Service**

At year-end, the District had approximately \$20.7 million in outstanding debt, compared to \$15.0 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

## **Budgetary Implications**

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately \$458,962 in contingency (2.58%). The general fund cash balance for beginning the next fiscal year is \$4,808,823.

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

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

**BATH COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 9,483,936	\$ 629,387	\$ 10,113,323
Receivables (net of allowances for uncollectibles):			
Taxes	25,277	-	25,277
Other	17,463	4,906	22,369
Intergovernmental	284,192	20,363	304,555
Inventories	-	4,115	4,115
Capital assets, not being depreciated	5,397,743	-	5,397,743
Capital assets, being depreciated, net	19,960,625	454,344	20,414,969
Total assets	35,169,236	1,113,115	36,282,351
<b>Deferred Outflows of Resources</b>			
Deferred savings from refunding bonds	338,059	-	338,059
Total deferred outflows of resources	338,059	-	338,059
<b>Liabilities</b>			
Accounts payable	2,494,470	366	2,494,836
Cash deficit balance	61,121	-	61,121
Deferred revenue	217,228	-	217,228
Accrued salaries and benefits	643,228	-	643,228
Portion due or payable within one year:			
Debt obligations	1,257,235	-	1,257,235
Interest payable	69,667	-	69,667
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	19,268,676	-	19,268,676
Accrued sick leave	159,947	-	159,947
Total liabilities	24,171,572	366	24,171,938
<b>Net Position</b>			
Net investment in capital assets	5,170,516	454,344	5,624,860
Restricted for:			
Capital projects	2,449,429	-	2,449,429
Other purposes	-	658,405	658,405
Unrestricted	3,715,778	-	3,715,778
Total net position	\$ 11,335,723	\$ 1,112,749	\$ 12,448,472

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
Instruction	\$ 10,428,271	\$ -	\$ 1,520,334	\$ -	\$ (8,907,937)	\$ -	\$ (8,907,937)
Support services:							
Students	1,152,652	-	116,426	-	(1,036,226)	-	(1,036,226)
Instructional staff	552,036	-	323,499	-	(228,537)	-	(228,537)
District administration	963,595	-	5,043	-	(958,552)	-	(958,552)
School administration	1,011,961	-	-	-	(1,011,961)	-	(1,011,961)
Business and other support services	348,199	-	-	-	(348,199)	-	(348,199)
Operation and maintenance of plant	1,764,275	-	30,080	-	(1,734,195)	-	(1,734,195)
Student transportation	1,284,609	-	56,492	-	(1,228,117)	-	(1,228,117)
Community services	323,549	-	322,464	-	(1,085)	-	(1,085)
Debt service	544,661	-	-	1,346,935	802,274	-	802,274
Total governmental activities	<u>18,373,808</u>	<u>-</u>	<u>2,374,338</u>	<u>1,346,935</u>	<u>(14,652,535)</u>	<u>-</u>	<u>(14,652,535)</u>
Business-type activities:							
Food service	1,317,858	187,967	1,121,012	-	-	(8,879)	(8,879)
Child Care	156,364	103,463	44,440	-	-	(8,461)	(8,461)
Total business-type activities	<u>1,474,222</u>	<u>291,430</u>	<u>1,165,452</u>	<u>-</u>	<u>-</u>	<u>(17,340)</u>	<u>(17,340)</u>
Total primary government	<u>\$ 19,848,030</u>	<u>\$ 291,430</u>	<u>\$ 3,539,790</u>	<u>\$ 1,346,935</u>	<u>\$ (14,652,535)</u>	<u>\$ (17,340)</u>	<u>\$ (14,669,875)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 1,569,860	\$ -	\$ 1,569,860
Motor vehicle					272,552	-	272,552
Utilities					597,610	-	597,610
Intergovernmental revenues:							
State					12,450,324	-	12,450,324
Investment earnings					164,928	1,725	166,653
Gain on sale of assets					90,714	-	90,714
Other local revenues					40,266	-	40,266
Total general revenues and transfers					<u>15,186,254</u>	<u>1,725</u>	<u>15,187,979</u>
Change in net position					533,719	(15,615)	518,104
Net position June 30, 2013, as restated					<u>10,802,004</u>	<u>1,128,364</u>	<u>11,930,368</u>
Net position, June 30, 2014					<u>\$ 11,335,723</u>	<u>\$ 1,112,749</u>	<u>\$ 12,448,472</u>

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

BATH COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 4,808,823	\$ -	\$ 4,110,939	\$ 564,174	\$ 9,483,936
Receivables (net of allowances for uncollectibles):					
Property taxes	25,277	-	-	-	25,277
Other	17,463	-	-	-	17,463
Intergovernmental - state	-	284,192	-	-	284,192
Intergovernmental - federal	-	-	-	-	-
Total assets	<u>\$ 4,851,563</u>	<u>\$ 284,192</u>	<u>\$ 4,110,939</u>	<u>\$ 564,174</u>	<u>\$ 9,810,868</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 262,943	\$ 5,843	\$ 2,225,684	\$ -	\$ 2,494,470
Cash deficit balance	-	61,121	-	-	61,121
Accrued salaries and benefits	643,228	-	-	-	643,228
Deferred revenue	-	217,228	-	-	217,228
Total liabilities	<u>906,171</u>	<u>284,192</u>	<u>2,225,684</u>	<u>-</u>	<u>3,416,047</u>
<b>Fund balances:</b>					
Assigned	35,898	-	-	-	35,898
Restricted	-	-	1,885,255	564,174	2,449,429
Non-spendable	-	-	-	-	-
Unassigned	3,909,494	-	-	-	3,909,494
Committed	-	-	-	-	-
Total fund balances	<u>3,945,392</u>	<u>-</u>	<u>1,885,255</u>	<u>564,174</u>	<u>6,394,821</u>
Total liabilities and fund balances	<u>\$ 4,851,563</u>	<u>\$ 284,192</u>	<u>\$ 4,110,939</u>	<u>\$ 564,174</u>	<u>\$ 9,810,868</u>

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

BATH COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET POSITION  
JUNE 30, 2014

Fund balances—total governmental funds	\$ 6,394,821
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,358,368
Certain other assets and liabilities are not available to pay current period expenditures and therefore, not reported in the funds.	(69,667)
Savings from refunding bonds are not available to pay current period expenditures and therefore, not reported in the funds.	338,059
Some liabilities, including bonds payable, KSBIT payable, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(20,685,858)</u>
Net position of governmental activities	<u>\$ 11,335,723</u>

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 1,360,844	\$ -	\$ -	\$ 209,016	\$ 1,569,860
Motor vehicles	272,552	-	-	-	272,552
Utilities	597,610	-	-	-	597,610
Interest income	15,960	148,968	-	-	164,928
Other local revenues	40,266	32,650	-	-	72,916
Intergovernmental - State	12,404,479	786,901	-	1,346,935	14,538,315
Intergovernmental - Indirect federal	24,516	1,554,787	-	-	1,579,303
Intergovernmental - Direct federal	21,329	-	-	-	21,329
Total revenues	<u>14,737,556</u>	<u>2,523,306</u>	<u>-</u>	<u>1,555,951</u>	<u>18,816,813</u>
Expenditures:					
Current:					
Instruction	8,568,036	1,699,169	-	-	10,267,205
Support services:					
Students	967,103	116,426	-	-	1,083,529
Instructional staff	187,960	323,499	-	-	511,459
District administration	914,094	5,043	-	-	919,137
School administration	1,007,797	-	-	-	1,007,797
Business and other support services	338,644	-	-	-	338,644
Operation and maintenance of plant	1,389,623	30,080	-	-	1,419,703
Student transportation	1,073,247	56,492	-	-	1,129,739
Community services	-	322,464	-	-	322,464
Facilities acquisition and construction	-	-	4,884,593	-	4,884,593
Debt service	112,200	-	-	1,316,142	1,428,342
Total expenditures	<u>14,558,704</u>	<u>2,553,173</u>	<u>4,884,593</u>	<u>1,316,142</u>	<u>23,312,612</u>
Excess (deficiency) of revenues over expenditures	<u>178,852</u>	<u>(29,867)</u>	<u>(4,884,593)</u>	<u>239,809</u>	<u>(4,495,799)</u>
Other financing sources (uses):					
Bond proceeds	-	-	6,337,686	-	6,337,686
Gain on sale of equipment	94,328	-	-	-	94,328
Transfers in	-	29,867	85,000	623,521	738,388
Transfers out	(29,867)	-	-	(708,521)	(738,388)
Total other financing sources and uses	<u>64,461</u>	<u>29,867</u>	<u>6,422,686</u>	<u>(85,000)</u>	<u>6,432,014</u>
Net change in fund balances	243,313	-	1,538,093	154,809	1,936,215
Fund balances, June 30, 2013	<u>3,702,079</u>	<u>-</u>	<u>347,162</u>	<u>409,365</u>	<u>4,458,606</u>
Fund balances, June 30, 2014	<u>\$ 3,945,392</u>	<u>\$ -</u>	<u>\$ 1,885,255</u>	<u>\$ 564,174</u>	<u>\$ 6,394,821</u>

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

BATH COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances—total governmental funds \$ 1,936,215

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	5,296,073	
Adjustment to gain on disposal of assets	(3,614)	
Depreciation expense	<u>(1,012,191)</u>	4,280,268

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave	(42,973)
Interest payable	6,516
Capitalized savings from bond refundings amortization expense	(42,730)
Bond issuance costs	(70,411)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net position. (6,523,472)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position. 990,306

Change in net position of governmental activities \$ 533,719

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

**BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014**

	<u>Food Service Fund</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 622,171	\$ 7,216	\$ 629,387
Receivables (net of allowances for uncollectibles)			
Intergovernmental - federal	20,363	-	20,363
Other	-	4,906	4,906
Inventories	4,115	-	4,115
Total current assets	<u>646,649</u>	<u>12,122</u>	<u>658,771</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	454,344	-	454,344
Total noncurrent assets	<u>454,344</u>	<u>-</u>	<u>454,344</u>
Total assets	<u><u>\$1,100,993</u></u>	<u><u>\$12,122</u></u>	<u><u>\$1,113,115</u></u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 366	\$ -	\$ 366
Total current liabilities	<u>366</u>	<u>-</u>	<u>366</u>
Total liabilities	<u>366</u>	<u>-</u>	<u>366</u>
<b>Net Position</b>			
Net Investment in capital assets	454,344	-	454,344
Restricted	646,283	12,122	658,405
Total net position	<u>1,100,627</u>	<u>12,122</u>	<u>1,112,749</u>
Total liabilities and net position	<u><u>\$ 1,100,993</u></u>	<u><u>\$ 12,122</u></u>	<u><u>\$ 1,113,115</u></u>

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
	<u>          </u>	<u>          </u>	<u>          </u>
Operating revenues:			
Lunchroom sales	\$ 187,967	\$ -	\$ 187,967
Tuition from individuals	-	103,463	103,463
Revenue from local sources	10	24,320	24,330
Revenue from state sources (on-behalf)	75,187	20,120	95,307
Total operating revenues	<u>263,164</u>	<u>147,903</u>	<u>411,067</u>
 Operating expenses:			
Salaries and wages	346,928	92,869	439,797
Employee benefits	164,625	23,768	188,393
Materials and supplies	758,520	39,504	798,024
Depreciation	31,405	-	31,405
Other operating expenses	16,380	223	16,603
Total operating expenses	<u>1,317,858</u>	<u>156,364</u>	<u>1,474,222</u>
 Operating income (loss)	<u>(1,054,694)</u>	<u>(8,461)</u>	<u>(1,063,155)</u>
 Nonoperating revenues:			
Federal grants	971,786	-	971,786
Investment income	1,725	-	1,725
Donated commodities	61,727	-	61,727
State grants	12,302	-	12,302
Total nonoperating revenue	<u>1,047,540</u>	<u>-</u>	<u>1,047,540</u>
 Increase (decrease) in net position	(7,154)	(8,461)	(15,615)
 Net position, June 30, 2013	<u>1,107,781</u>	<u>20,583</u>	<u>1,128,364</u>
 Net position, June 30, 2014	<u>\$ 1,100,627</u>	<u>\$ 12,122</u>	<u>\$ 1,112,749</u>

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	\$ 187,967	\$ -	\$ 187,967
Tuition	-	100,631	100,631
Other revenues	10	24,320	24,330
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(698,679)	(40,024)	(738,703)
Payments to employees	(436,366)	(96,517)	(532,883)
Other payments	(16,380)	(223)	(16,603)
Net cash provided by (used for) operating activities	<u>(963,448)</u>	<u>(11,813)</u>	<u>(975,261)</u>
Cash flows from noncapital financing activities:			
Government grants	1,068,717	-	1,068,717
Net cash provided by noncapital and related financing activities	<u>1,068,717</u>	<u>-</u>	<u>1,068,717</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(6,289)	-	(6,289)
Net cash used for capital and related financing activities	<u>(6,289)</u>	<u>-</u>	<u>(6,289)</u>
Cash flows from investing activities:			
Interest received on investments	1,725	-	1,725
Net cash provided by investing activities	<u>1,725</u>	<u>-</u>	<u>1,725</u>
Net increase (decrease) in cash and cash equivalents	100,705	(11,813)	88,892
Cash and cash equivalents, June 30, 2013	<u>521,466</u>	<u>19,029</u>	<u>540,495</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 622,171</u>	<u>\$ 7,216</u>	<u>\$ 629,387</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	\$ (1,054,694)	\$ (8,461)	\$ (1,063,155)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	31,405	-	31,405
Donated commodities	61,727	-	61,727
Change in assets and liabilities:			
Inventory	11,464	-	11,464
Accounts receivable	-	(2,832)	(2,832)
Accounts payable	(13,350)	(520)	(13,870)
Net cash provided by (used for) operating activities	<u>\$ (963,448)</u>	<u>\$ (11,813)</u>	<u>\$ (975,261)</u>
Non-cash items:			
Donated commodities	\$ 61,727	\$ -	\$ 61,727
On-behalf payments	75,187	20,120	95,307

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014

	Trust Funds	Activity Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 25,916	\$ 256,289
Accounts receivable	6	-
Total assets	25,922	256,289
 <b>Liabilities</b>		
Accounts payable	-	-
Interfund payable	-	-
Due to students	-	256,289
Total liabilities	-	256,289
 <b>Net position held in trust</b>	 \$ 25,922	 \$ -

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

**BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Trust Funds
Additions -	
Interest income	\$ -
Other local revenues	82
	82
Deductions -	
Transfer out	-
Benefits paid	750
	750
Change in net position	(668)
Net position, June 30, 2013	26,590
Net position, June 30, 2014	\$ 25,922

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 890,000	\$ 890,000	\$ 1,360,844	\$ 470,844
Motor vehicles	200,000	200,000	272,552	72,552
Utilities	525,000	575,000	597,610	22,610
Interest income	12,000	12,000	15,960	3,960
Other local revenues	1,500	1,500	40,266	38,766
Intergovernmental - State	9,291,262	9,278,856	9,485,566	206,710
Intergovernmental - Indirect federal	-	-	24,516	24,516
Intergovernmental - Direct federal	5,000	5,000	21,329	16,329
Total revenues	<u>10,924,762</u>	<u>10,962,356</u>	<u>11,818,643</u>	<u>856,287</u>
Expenditures:				
Current:				
Instruction	7,152,120	6,992,315	6,515,865	476,450
Support services:				
Students	808,494	835,085	770,934	64,151
Instructional staff	311,927	310,022	149,876	160,146
District administration	1,360,784	1,360,784	806,834	553,950
School administration	834,152	839,272	776,039	63,233
Business and other support services	278,369	278,369	253,063	25,306
Operation and maintenance of plant	1,721,760	1,721,760	1,294,215	427,545
Student transportation	1,187,225	1,317,051	960,765	356,286
Community services	15,431	15,431	-	15,431
Debt service	175,000	175,000	112,200	62,800
Contingency	330,000	733,949	-	733,949
Total expenditures	<u>14,175,262</u>	<u>14,579,038</u>	<u>11,639,791</u>	<u>2,939,247</u>
Excess (deficiency) of revenues over expenditures	<u>(3,250,500)</u>	<u>(3,616,682)</u>	<u>178,852</u>	<u>3,795,534</u>
Other financing sources (uses):				
Gain on sale of equipment	500	500	94,328	93,828
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(29,867)	20,133
Total other financing sources and uses	<u>(49,500)</u>	<u>(49,500)</u>	<u>64,461</u>	<u>113,961</u>
Net change in fund balances	(3,300,000)	(3,666,182)	243,313	3,909,495
Fund balances, June 30, 2013	<u>3,300,000</u>	<u>3,666,182</u>	<u>3,702,079</u>	<u>35,897</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,945,392</u>	<u>\$ 3,945,392</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 2,918,913	
On-behalf payments:				
Instruction			(2,052,171)	
Support services:				
Student support			(196,169)	
Instructional staff support			(38,084)	
District administration			(107,260)	
School administration			(231,758)	
Business and other support services			(85,581)	
Operation and maintenance of plant			(95,408)	
Student transportation			(112,482)	
Community services			-	
Fund balance, June 30, 2014 (GAAP basis)			<u>\$ 3,945,392</u>	

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

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Interest income	\$ 160,979	\$ 154,694	\$ 148,968	\$ (5,726)
Other local revenues	34,945	31,052	32,650	1,598
Intergovernmental - State	772,001	728,422	786,901	58,479
Intergovernmental - Indirect federal	1,614,519	1,542,717	1,554,787	12,070
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>2,582,444</u>	<u>2,456,885</u>	<u>2,523,306</u>	<u>66,421</u>
Expenditures:				
Current:				
Instruction	1,803,426	1,683,667	1,699,169	(15,502)
Support services:				
Students	123,353	101,993	116,426	(14,433)
Instructional staff	350,019	344,989	323,499	21,490
District administration	-	-	5,043	(5,043)
Operation and maintenance of plant	42,207	41,207	30,080	11,127
Student transportation	31,838	39,157	56,492	(17,335)
Community services	281,601	295,872	322,464	(26,592)
Debt service	-	-	-	-
Total expenditures	<u>2,632,444</u>	<u>2,506,885</u>	<u>2,553,173</u>	<u>(46,288)</u>
Excess (deficiency) of revenues over expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(29,867)</u>	<u>20,133</u>
Other financing sources (uses):				
Transfers in	50,000	50,000	29,867	(20,133)
Transfers out	-	-	-	-
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>29,867</u>	<u>(20,133)</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**BATH COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**(1) REPORTING ENTITY**

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

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

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization's financial statements may be obtained from the Superintendent or the District's Finance Officer Jo Brewer at 405 West Main Street, Owingsville, Kentucky 40360.

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

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

C.C. Chenault Memorial Trust

The Trust was created to establish agricultural programs for the District. The District receives a quarterly payment from the trust for its agricultural programs. The District had a carryover balance to FY 2014 of \$-0- and received \$148,544 in quarterly payments in the current year and spent \$149,140 and had a receivable balance of \$596 due from the Trust at June 30, 2014. The Trust maintains separate accounting records and is not governed or managed by the District.

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

### Basis of Presentation

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

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

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

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) Debt Service Funds  
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.
- (B) The Trust Fund is a scholarship fund. The principal and interest earned may be used for scholarships to Bath County High School students.

#### Basis of Accounting

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

#### Property Taxes

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

taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.44 per \$100 valuation for real property, \$.44 per \$100 valuation for business personal property and \$.465 per \$100 valuation for motor vehicles. The assessed value of property upon which the levy for the 2014 fiscal year was based, was \$361,528,331.

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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

<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
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

### Budgetary Process

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

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

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

### Cash and Cash Equivalents

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

### Inventories

Supplies and materials are charged to expenditures when purchased.

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance Reserves

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

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

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

### Net Position

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

### Operating Revenues and Expenses

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

### Interfund Activity

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

### Bond Issuance Costs

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

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. See Note 15.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015. Management has not yet determined the effect this statement will have on the financial statements.

**(3) ESTIMATES**

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

**(4) CASH AND CASH EQUIVALENTS**

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

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$10,334,407 and the related bank balances totaled \$11,438,266. Of the total cash balance, \$511,313 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

Breakdown per financial statements:

Governmental funds	\$	9,422,815
Proprietary funds		629,387

Trust and Agency funds

282,205  
\$ 10,334,407

**(5) LONG-TERM DEBT**

**Bonds**

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

Issue Date	Proceeds	Rates
1996	\$ 185,000	5.00% – 5.70%
2003-K	955,000	1.10% – 3.15%
2004	850,000	2.00% – 5.00%
2004-K	123,315	1.00% – 3.15%
2006-K	132,173	3.30% – 4.00%
2005	5,665,000	3.00% – 4.25%
2006-K	208,738	3.50%–3.875%
2008	705,000	3.30% – 4.30%
2008-K	159,075	2.40% – 4.00%
2008	8,975,000	2.30% – 4.00%
2009-K	120,186	2.00% – 3.90%
2012-K	166,886	2.00% – 2.63%
2012R	1,100,000	1.10% – 2.35%
2013R	4,350,000	1.00% – 2.25%
2013	1,495,000	1.30% - 4.10%
2013QZAB	3,000,000	0.00%
2014E	1,955,000	1.10% - 3.40%
2014K	185,786	2.00% - 3.00%
2014 KSBIT	127,858	0.00%

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

In 2004, 2005, 2008, 2012, 2013, and 2014, the District entered into “participation agreements” with the School Facility construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014, for debt service (principal and interest) are as follows:

Year	Kentucky School Facilities Construction Commission		Bath County School District		Total
	Principal	Interest	Principal	Interest	
2015	\$ 477,902	\$ 296,364	\$ 779,333	\$ 202,998	\$ 1,756,597
2016	491,659	293,967	798,701	181,793	1,766,120
2017	535,489	280,706	798,264	167,733	1,782,192
2018	555,187	267,050	781,957	157,779	1,761,973
2019	566,251	251,954	776,575	146,597	1,741,377

2020-2024	3,041,570	985,724	3,944,512	522,798	8,494,604
2025-2029	2,651,781	439,873	3,013,219	155,094	6,259,967
2030-2033	<u>1,015,979</u>	<u>107,892</u>	<u>339,021</u>	<u>24,223</u>	<u>1,487,115</u>
	<u>\$9,335,818</u>	<u>\$2,923,530</u>	<u>\$ 11,231,582</u>	<u>\$ 1,559,015</u>	<u>\$ 25,049,945</u>

### KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during fiscal year 2013 that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance ("KEMI"). As a result the District's portion of the liability was estimated at \$127,858. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest.

Following are changes in long-term debt:

	Balance		Balance	
	July 1, 2013	Additions	Reductions	June 30, 2014
Issue of 2004	\$ 40,000	\$ -	\$ 40,000	\$ -
January 2004 KISTA	11,523	-	11,523	-
Issue of 2005	900,000	-	290,000	610,000
January 2006 KISTA	39,515	-	14,394	25,121
September 2006 KISTA	86,879	-	22,414	64,465
Issue of 2008A	575,000	-	30,000	545,000
January 2008 KISTA	80,267	-	16,067	64,200
Issue of 2008	7,465,000	-	355,000	7,110,000
January 2009 KISTA	71,775	-	11,748	60,027
January 2012 KISTA	148,735	-	18,792	129,943
Issue of 2012R	1,010,000	-	80,000	930,000
Issue of 2013R	4,350,000	-	85,000	4,265,000
Issue of 2013	-	1,495,000	-	1,495,000
Issue of 2013 QZAB	-	3,000,000	-	3,000,000
Issue of 2014E	-	1,955,000	-	1,955,000
March 2014 KISTA	-	185,786	-	185,786
KSBIT Liability	143,640	-	15,782	127,858
Accumulated unpaid sick leave benefits	116,974	42,973	-	159,947
Less: Discount on bonds	-	(41,903)	(414)	(41,489)
Totals	<u>\$ 15,039,308</u>	<u>\$ 6,636,856</u>	<u>\$ 990,306</u>	<u>\$ 20,685,858</u>

### (6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance		Balance	
	June 30, 2013	Additions	Deductions	June 30, 2014
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 518,317	\$ -	\$ -	\$ 518,317
Construction in progress	33,610	4,845,816	-	4,879,426
Depreciable:				
Land improvements	949,651	-	-	949,651
Buildings and improvements	25,707,728	-	-	25,707,728

Technology equipment	1,825,009	229,949	97,701	1,957,257
General equipment	824,382	38,570	6,914	856,038
Vehicles	<u>2,913,011</u>	<u>181,738</u>	<u>-</u>	<u>3,094,749</u>
Totals	<u>32,771,708</u>	<u>5,296,073</u>	<u>104,615</u>	<u>37,963,166</u>
Less: accumulated depreciation				
Land improvements	812,619	28,777	-	841,396
Buildings and improvements	7,132,869	515,069	-	7,647,938
Technology equipment	1,187,310	259,033	97,448	1,348,895
General equipment	540,855	43,434	3,553	580,736
Vehicles	<u>2,019,955</u>	<u>165,878</u>	<u>-</u>	<u>2,185,833</u>
Total accumulated depreciation	<u>11,693,608</u>	<u>1,012,191</u>	<u>101,001</u>	<u>12,604,798</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 21,078,100</u>	<u>\$ 4,283,882</u>	<u>\$ 3,614</u>	<u>\$ 25,358,368</u>
Business-Type Activities				
Buildings and improvements	\$ 308,000	\$ -	\$ -	\$ 308,000
Food service and equipment	517,387	-	-	517,387
Technology equipment	<u>11,086</u>	<u>6,289</u>	<u>2,712</u>	<u>14,663</u>
	<u>836,473</u>	<u>6,289</u>	<u>2,712</u>	<u>840,050</u>
Less: accumulated depreciation				
Food service equipment	31,313	6,160	-	37,473
Food service and equipment	320,228	23,661	-	343,889
Technology equipment	<u>5,472</u>	<u>1,584</u>	<u>2,712</u>	<u>4,344</u>
	<u>357,013</u>	<u>31,405</u>	<u>2,712</u>	<u>385,706</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 479,460</u>	<u>\$ (25,116)</u>	<u>\$ -</u>	<u>\$ 454,344</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 343,787
Student support services	69,123
Instructional staff support services	40,577
District administration	44,458
School administration	4,164
Business support services	9,555
Plant operation & maintenance	344,572
Student transportation	154,870
Community service activities	1,085
	<u>\$ 1,012,191</u>

#### (7) COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of June 30, 2014, as follows:

<u>Year ending</u>	
2015	\$ 93,575
Total minimum rentals	<u>\$ 93,575</u>

(8) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

**Pension Plan**

*Plan Description* - The Bath County School District contributes to the Teachers Retirement System of Kentucky ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

*Funding policy* - Contribution rates are established by KRS. Effective July 1, 2013, members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. Effective July 1, 2013, for members whose salaries are federally funded, the District contributes 14.605% of salaries.

**Medical Insurance Plan**

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

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

*Funding policy* – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1.5% of members' salary for the 2013-2014 fiscal year.

The District's total payroll for the year was \$11,409,668. The payroll for employees covered under KTRS was \$8,435,447. For the year ended June 30, 2014, the

Commonwealth of Kentucky contributed \$984,159 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2014, were \$147,211, which represents those employees covered by federal programs, and \$111,199, which represents the District's contributions under the Shared Responsibility Plan.

**B. County Employee's Retirement System:**

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

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

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.89% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was \$11,409,668. The payroll for employees covered under CERS was \$2,974,222. The District's contributions to CERS for the year ending June 30, 2014, 2013, and 2012 were \$459,720, \$475,973, and \$456,460, respectively, equal to the required contributions for the year.

**(9) INSURANCE AND RELATED ACTIVITIES**

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

**(10) CONTINGENCIES**

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

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

**(11) RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for

workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

**(12) COBRA**

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

**(13) TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 29,867
Operating	Building (FSPK)	Debt Service	Debt Service	623,521
Operating	Capital Outlay	Construction	Construction	85,000

**(14) ON-BEHALF PAYMENTS**

For the year ended June 30, 2014, total payments of \$3,706,840 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and SFCC debt service. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund balance - Budget and Actual.

On-behalf payments at June 30, 2014 consisted of the following:

Teacher Retirement	\$ 984,159
Health & Life Insurance	1,997,596
Technology	32,465
SFCC Debt Service	692,620

**(15) CHANGES IN BEGINNING NET POSITION**

Governmental Accounting Standards Board No. 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was increased \$380,789 to capitalize the deferred savings from refunding bonds issued prior to the 2012-13 fiscal year.

**SUPPLEMENTARY INFORMATION**

BATH COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	SEEK Funds	FSPK Fund	Debt Service Funds	Total Non-Major Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 473,922	\$ 90,252	\$ -	\$ 564,174
Accounts receivable	-	-	-	-
Total assets	\$ 473,922	\$ 90,252	\$ -	\$ 564,174
<b>LIABILITIES AND FUND BALANCE:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
<b>Fund Balances:</b>				
Assigned	-	-	-	-
Restricted	473,922	90,252	-	564,174
Total fund balance	473,922	90,252	-	564,174
Total liabilities and fund balances	\$ 473,922	\$ 90,252	\$ -	\$ 564,174

BATH COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	SEEK Funds	FSPK Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:				
From local sources -				
Property taxes	\$ -	\$ 209,016	\$ -	\$ 209,016
Earnings on investments	-	-	-	-
Intergovernmental - State	186,666	467,648	692,621	1,346,935
Total revenues	<u>186,666</u>	<u>676,664</u>	<u>692,621</u>	<u>1,555,951</u>
EXPENDITURES:				
Current -				
Facilities acquisition and construction	-	-	-	-
Debt service	-	-	1,316,142	1,316,142
Total expenditures	<u>-</u>	<u>-</u>	<u>1,316,142</u>	<u>1,316,142</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>186,666</u>	<u>676,664</u>	<u>(623,521)</u>	<u>239,809</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	623,521	623,521
Operating transfers out	(85,000)	(623,521)	-	(708,521)
Total other financing sources (uses)	<u>(85,000)</u>	<u>(623,521)</u>	<u>623,521</u>	<u>(85,000)</u>
NET CHANGE IN FUND BALANCES	101,666	53,143	-	154,809
FUND BALANCE JUNE 30, 2013	<u>372,256</u>	<u>37,109</u>	<u>-</u>	<u>409,365</u>
FUND BALANCE JUNE 30, 2014	<u>\$ 473,922</u>	<u>\$ 90,252</u>	<u>\$ -</u>	<u>\$ 564,174</u>

**BATH COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF NET POSITION  
NON-MAJOR PROPRIETARY FUNDS  
JUNE 30, 2014**

	Child Care Fund	Preschool Fund	Total Other Proprietary Funds
<b>ASSETS:</b>			
Cash and cash equivalents	\$ (2,057)	\$ 9,273	\$ 7,216
Accounts receivable	4,906	-	4,906
Total assets	\$ 2,849	\$ 9,273	\$ 12,122
<b>LIABILITIES AND NET POSITION:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	-	-	-
<b>Net Position:</b>			
Assigned	-	-	-
Restricted	2,849	9,273	12,122
Total net position	2,849	9,273	12,122
Total liabilities and net position	\$ 2,849	\$ 9,273	\$ 12,122

**BATH COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
NON-MAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Child Care Fund</u>	<u>Preschool Funds</u>	<u>Total Other Proprietary Funds</u>
Operating revenues:			
Tuition from individuals	\$ 88,284	\$ 15,179	\$ 103,463
Revenue from local sources	24,320	-	24,320
Revenue from state sources	20,120	-	20,120
Total operating revenues	<u>132,724</u>	<u>15,179</u>	<u>147,903</u>
Operating expenses:			
Salaries and wages	92,869	-	92,869
Employee benefits	23,768	-	23,768
Materials and supplies	29,596	9,908	39,504
Other operating expenses	223	-	223
Total operating expenses	<u>146,456</u>	<u>9,908</u>	<u>156,364</u>
Operating income	<u>(13,732)</u>	<u>5,271</u>	<u>(8,461)</u>
Nonoperating revenues :			
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenue	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(13,732)	5,271	(8,461)
Net position, June 30, 2013	<u>16,581</u>	<u>4,002</u>	<u>20,583</u>
Net position, June 30, 2014	<u><u>\$ 2,849</u></u>	<u><u>\$ 9,273</u></u>	<u><u>\$ 12,122</u></u>

BATH COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR DEBT SERVICE FUNDS  
 JUNE 30, 2014

	1996 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	2013R Bond Fund	2013 Bond Fund	2013 QZAB Bond Fund	2014E Bond Fund	Totals Debt Service Fund
<b>ASSETS:</b>											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE:</b>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:											
Restricted	-	-	-	-	-	-	-	-	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BATH COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NON-MAJOR DEBT SERVICE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	1996 Bond Fund	2004 Bond Fund	2005 Bond Fund	1/2008 Bond Fund	5/2008 Bond Fund	2012 Bond Fund	2013R Bond Fund	2013 Bond Fund	2013 QZAB Bond Fund	2014E Bond Fund	Totals Debt Service Fund
REVENUES:											
Intergovernmental - State	\$ 17,993	\$ 41,600	\$ 33,245	\$ 53,605	\$ 466,062	\$ 47,890	\$ 15,587	\$ 16,639	\$ -	\$ -	\$ 692,621
Interest income	-	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>17,993</u>	<u>41,600</u>	<u>33,245</u>	<u>53,605</u>	<u>466,062</u>	<u>47,890</u>	<u>15,587</u>	<u>16,639</u>	<u>-</u>	<u>-</u>	<u>692,621</u>
EXPENDITURES:											
Debt service	17,993	41,600	318,467	53,605	629,509	95,951	142,378	16,639	-	-	1,316,142
Total expenditures	<u>17,993</u>	<u>41,600</u>	<u>318,467</u>	<u>53,605</u>	<u>629,509</u>	<u>95,951</u>	<u>142,378</u>	<u>16,639</u>	<u>-</u>	<u>-</u>	<u>1,316,142</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	(285,222)	-	(163,447)	(48,061)	(126,791)	-	-	-	(623,521)
OTHER FINANCING SOURCES (USES):											
Operating transfers in	-	-	285,222	-	163,447	48,061	126,791	-	-	-	623,521
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>285,222</u>	<u>-</u>	<u>163,447</u>	<u>48,061</u>	<u>126,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,521</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2013	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Bath County High School	\$ 108,396	\$ 223,039	\$ 205,735	\$ 125,700	\$ -	\$ -	\$ 125,700
Bath County Middle School	33,656	130,406	117,511	46,551	-	-	46,551
Owingsville Elementary	37,538	65,287	52,324	50,501	-	-	50,501
Crossroads Elementary	19,719	81,569	67,751	33,537	-	-	33,537
	<u>\$ 199,309</u>	<u>\$ 500,301</u>	<u>\$ 443,321</u>	<u>\$ 256,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,289</u>

BATH COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS  
BATH COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disburse- ment	Cash Balance June 30, 2014	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2014
General	\$ 9,941	\$ 14,789	\$ 15,451	\$ 9,279	\$ -	\$ 9,279
Academic team	165	-	85	80	-	80
Guidance	2,183	1,258	1,148	2,293	-	2,293
Talented and gifted	673	-	-	673	-	673
Senior trip	697	-	-	697	-	697
After Prom	1,016	8,023	7,454	1,585	-	1,585
Faculty	947	1,732	1,991	688	-	688
Beta Club	3,676	1,700	2,354	3,022	-	3,022
Bookstore	140	-	140	-	-	-
FBLA	650	10,459	9,789	1,320	-	1,320
FCCLA	2,859	6,974	6,766	3,067	-	3,067
FFA	905	3,335	2,184	2,056	-	2,056
FEA	53	169	192	30	-	30
Library Club	300	47	85	262	-	262
TSA	297	1,239	675	861	-	861
FCA	130	-	-	130	-	130
AG-Mechanics	38	-	-	38	-	38
AG-Science	3,807	6,344	658	9,493	-	9,493
Art	165	-	-	165	-	165
Band	133	-	-	133	-	133
Drama	-	926	374	552	-	552
Strategic Gaming	-	669	411	258	-	258
Math Field Trip	-	315	292	23	-	23
Hort	22,526	21,346	19,605	24,267	-	24,267
Journalism	11,369	1,530	7,500	5,399	-	5,399
Spanish	459	530	628	361	-	361
Health/Science	-	660	660	-	-	-
Humanities	448	-	-	448	-	448
Consumer Science	22	827	823	26	-	26
Language Arts	-	1,136	1,136	-	-	-
Athletics	22,859	45,319	41,330	26,848	-	26,848
Baseball	918	10,695	5,865	5,748	-	5,748
Boys basketball	218	1,951	2,166	3	-	3
Cheerleaders	569	712	800	481	-	481
Boys Cross Country	746	1,378	1,409	715	-	715
Football	752	2,800	3,538	14	-	14
Girls Cross Country	757	1,377	1,409	725	-	725
Girls Basketball	1,486	1,000	1,152	1,334	-	1,334
Girls Softball	249	11,950	11,435	764	-	764
Girls Track	440	2,623	1,642	1,421	-	1,421
Boys Golf	319	400	700	19	-	19
Girls Golf	993	-	196	797	-	797
Boys Soccer	5	603	396	212	-	212
Girls Soccer	202	1,754	1,474	482	-	482
Boys Track	259	1,013	698	574	-	574
Girls Volleyball	1,377	400	919	858	-	858
Junior Class	3,869	21,443	21,016	4,296	-	4,296
Sophomore Class	5,291	9,572	12,333	2,530	-	2,530
Senior Class	336	16,083	7,698	8,721	-	8,721
Freshman Class	1,916	6,353	8,269	-	-	-
Youth Service Center	453	1,605	589	1,469	-	1,469
Backpack	783	-	300	483	-	483
	<u>\$ 108,396</u>	<u>\$ 223,039</u>	<u>\$ 205,735</u>	<u>\$ 125,700</u>	<u>\$ -</u>	<u>\$ 125,700</u>

BATH COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100202-12	\$ 956,921	\$ 284,613 *
Title I Grants to Local Educational Agencies	84.010	3100202-11	1,004,450	106 *
Title I Grants to Local Educational Agencies	84.010	3100202-13	908,777	627,202 *
Title I Grants, School Improvement (Part A)	84.010	3100202-11	63,695	5,658 *
				<u>917,579 *</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	429,260	42,248
Special Education Grants to States - IDEA, Part B	84.027	3810002-13	410,001	370,300
Special Education Preschool Grants	84.173	3800002-13	29,619	15,538
Special Education Preschool Grants	84.173	3800002-12	29,899	6,656
				<u>434,742</u>
Race to the Top	84.413	4521	40,509	12,995
Title VI - Rural & Low Income	84.358	3140002-13	35,342	35,342
Title VI - Rural & Low Income	84.358	3140002-12	39,269	3,478
				<u>38,820</u>
Improving Teacher Quality State Grants	84.367	3230002-12	130,197	15,289
Improving Teacher Quality State Grants	84.367	3230002-11	131,762	100,786
				<u>116,075</u>
Vocational Education Basic Grants to States	84.048	4621332-14	29,722	29,722
Vocational Education Basic Grants to States	84.048	4621332-13	1,550	1,550
				<u>31,272</u>
Total U.S. Department of Education				<u>1,551,483</u>
<u>Appalachian Regional Commission</u>				
Pass-through State Department of Education:				
Appalachian Higher Education Network	23.011	6884	3,991	2,764
Total Appalachian Regional Commission				<u>2,764</u>

**BATH COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Direct Program:				
RUS - Distance Learning and Telemedicine Grant	10.855	RDUP-07-01-DLT	273,433	540
Pass-through State Department of Education:				
Cash Assistance:				
Child and Adult Care Food Program	10.558	7800016-14	-	195
Child and Adult Care Food Program	10.558	7800016-13	-	74
Child and Adult Care Food Program	10.558	7790021-14	-	3,595
Child and Adult Care Food Program	10.558	7790021-13	-	1,765
				<u>5,629</u>
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-13	-	140,031
National School Lunch Program	10.555	7750002-14	-	494,963
Summer Food Service Program for Children	10.559	7690024-13	-	3,793
Summer Food Service Program for Children	10.559	7740023-13	-	36,497
School Breakfast Program	10.553	7760005-13	-	61,132
School Breakfast Program	10.553	7760005-14	-	242,171
Cash Assistance Subtotal				<u>978,587</u>
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	011-0100	-	61,727
Total Child Nutrition Cluster				<u>1,040,314</u>
Pass-through Bath County Fiscal Court:				
Schools and Roads Grants to States	10.665	FUND 1-4700	-	24,516
Total U.S. Department of Agriculture				<u>1,070,999</u>
Total Federal Assistance				<u>\$ 2,625,246</u>

\* Denotes major program.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bath County School District under the programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Bath County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the organization had total inventory of \$4,115.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 District in a separate letter dated October 17, 2014.

### **Purpose of this Report**

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

*Kelley Galloway Smith Doolby, PSC*

October 17, 2014



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

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

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

We have audited Bath County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. Bath County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

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

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

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

### Purpose of this Report

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

*Kelley Galloway Smith Doolby, PSC*

October 17, 2014

**BATH COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**(A) SUMMARY OF AUDIT RESULTS**

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   x   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

Type of audit auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ yes   x   no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

Title I (84.010)

Dollar threshold to distinguish between Type A and Type B Programs: \$   300,000  

The District qualified as a low risk auditee \_\_\_\_\_   x   yes \_\_\_\_\_ no

**(B) FINANCIAL STATEMENT FINDINGS**

None noted in the current year.

**(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings in the current year.

**BATH COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

There were no findings in the prior year.

**BATH COUNTY SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2014**

No corrective action plan needed in the current year.



**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

*Certified Public Accountants and Advisors*

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web [www.kgsgcpa.com](http://www.kgsgcpa.com) Member of **PKF North America**

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

In planning and performing our audit of the financial statements of Bath County School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 17, 2014, on the financial statements of the District.

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

*Kelley Galloway Smith Goolsby, PSC*

October 17, 2014

**BATH COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**2014-1 Timesheets**

Statement of Condition: We noted 2 instances of bus driver timesheets without supervisor signatures of review and approval.

Criteria for Condition: The District's policy requires time sheets for bus drivers be reviewed and approved by a supervisor.

Cause of Condition: Oversight.

Effect of the Condition: Bus driver hours are not documented as reviewed and approved by a supervisor.

Recommendation of the Condition: We recommend that the District reinforce their policy regarding time sheets for bus drivers being reviewed and approved by a supervisor.

Management Response: Management will meet with the new transportation clerk to discuss the importance of the time sheet collection and accuracy for bus drivers. The collection of time sheets should be completed by no later than the 10<sup>th</sup> of the following month and the review of the appropriate signatures prior to filing.

**2014-2 Attendance**

Statement of Condition: We noted a high school student that left the district was coded as a "W22: Moved, re-enrolled in another Kentucky public district" in Infinite Campus, but the documentation provided by the Director of Pupil Personnel stated that the child moved to Florida and no records request was received from a Florida high school. This student should be coded appropriately to reflect that the District does not have proof of subsequent enrollment.

Criteria for Condition: All students who withdraw should be coded correctly in Infinite Campus.

Cause of Condition: Oversight.

Effect of the Condition: The District's graduation calculation could be affected if students who withdraw are not coded correctly in Infinite Campus. An unsubstantiated enrollment should count as if the child dropped out of school.

Recommendation of the Condition: We recommend that the District maintain documentation to support removal of the student and the corresponding status code in Infinite Campus. If documentation cannot be obtained, then the appropriate end status code should be used.

Management Response: Management will meet with the Director of Pupil Personnel and guidance counselors to discuss this issue. Every effort will be made to ensure proper procedures are being followed for students who withdraw and that Infinite Campus reflects the proper coding.

Status of Prior Year Management Points

The prior year conditions were not repeated in the current year. The Superintendent is the person responsible for initiation of the optional corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.