

BATH COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

For the Year Ended June 30, 2010

BATH COUNTY SCHOOL DISTRICT

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For the Year Ended June 30, 2010

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BATH COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bath County School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bath County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget 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 Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 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 inquires 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.

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 nonmajor fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Bath County School District. The combining and individual nonmajor fund financial statements, other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 29, 2010

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

As management of the Bath County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$6,475,195, including \$2,661,894 for restricted construction fund expenditures. The ending cash balance, including activity funds, for the District was \$4,489,765.
- The Board of Education completed and began using its new elementary school facilities during the year. Adjustments were made to the District's fixed assets accounting system to recognize all costs relative to acquisition and construction, including equipment additions.
- The District began a roof renovation project at Owingsville Elementary School estimated to cost \$437,563.
- Investment earnings totaled \$223,687 for the year ended June 30, 2010.
- The District reduced its long-term debt principal for the year ended was \$958,441. This includes that portion paid by KSFCC participation, \$450,162.
- Total general fund revenue was \$12,502,418 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding general fund transfers, there was \$11,867,233 in general fund expenditures. These totals reflect on-behalf state payments in the amount of \$2,621,558.
- The District expended American Recovery & Reinvestment Act funding during the fiscal year through various programs: Title I, \$580,816; IDEA-B, \$218,715; Homeless Program, \$1,774; Education Technology, \$1,740; and, State Fiscal Stabilization Fund, \$848,417.

OVERVIEW OF FINANCIAL STATEMENTS

The 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.

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2010

Government-wide financial statements

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

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

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

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

Fund financial statements

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

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.

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2010, assets exceeded liabilities by \$9,940,481.

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

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

Net assets for the years ended June 30, 2010 and 2009

Following are comparisons of net assets:

	At June 30,	
	<u>2010</u>	<u>2009</u>
Current Assets	5,311,189	7,234,960
Noncurrent Assets	<u>22,844,632</u>	<u>20,345,297</u>
<u>Total Assets</u>	<u>28,155,821</u>	<u>27,580,257</u>
Current Liabilities	2,234,054	2,759,726
Noncurrent Liabilities	<u>15,981,286</u>	<u>16,855,043</u>
<u>Total Liabilities</u>	<u>18,215,340</u>	<u>19,614,769</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	5,356,804	1,867,723
Restricted	40,432	38,228
Unreserved Fund Balance	<u>4,543,245</u>	<u>6,059,537</u>
<u>Total Net Assets</u>	<u>9,940,481</u>	<u>7,965,488</u>
<u>Total Liabilities and Net Assets</u>	<u>28,155,821</u>	<u>27,580,257</u>

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2010

- The change in current assets is mainly attributable to the use of current financing sources \$2,110,571 for ongoing and completed construction activity.
- The increase in non-current assets reflects an adjustment to recognize the total cost of the completed Crossroads Elementary School project.
- A significant difference in the change in current liabilities is due to outstanding construction obligations recognized at June 30, 2009.
- Decrease in non-current liabilities includes \$958,441 current year reduction in bond principal.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2010:

	Budget <u>2010</u>	Actual <u>2010</u>	Variance <u>I (D)</u>
Revenues:			
Local revenue sources	1,641,500	1,754,177	112,677
State revenue sources	9,003,674	10,647,773	1,644,099
Federal revenue	15,000	76,392	61,392
Other sources	<u>500</u>	<u>24,076</u>	<u>23,576</u>
<u>Total revenues</u>	<u>10,660,674</u>	<u>12,502,418</u>	<u>1,841,744</u>
Expenses:			
Instruction	6,661,860	6,821,599	(159,739)
Student support services	385,835	536,766	(150,931)
Instructional support	253,345	289,640	(36,295)
District administration	1,107,805	608,031	499,774
School administration	964,950	1,032,672	(67,722)
Business support services	321,719	255,027	66,692
Plant operations and management	1,767,031	1,419,128	347,903
Student transportation	1,040,896	875,848	165,048
Enterprise operations	13,529	12,609	920
Community services	-	15,913	(15,913)
Contingencies	<u>413,704</u>	<u>-</u>	<u>413,704</u>
<u>Total expenses</u>	<u>12,930,674</u>	<u>11,867,233</u>	<u>1,063,441</u>
<u>Excess (Deficiency) of Revenue over Expenses</u>	<u>(2,270,000)</u>	<u>635,185</u>	<u>778,303</u>

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2010

- Budgeted state revenue sources and budgeted expenses do not include state on-behalf payments for retirement, health insurance and other benefits in the amount of \$2,621,558.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2010 and 2009:

	For Year Ended June 30,	
	2010	2009
Revenues:		
Local revenue sources	3,077,378	3,065,027
State and federal revenue sources	17,618,104	16,967,595
<u>Total revenues</u>	<u>20,695,482</u>	<u>20,032,622</u>
Expenses:		
Instruction	10,533,082	10,584,815
Student support services	734,763	582,093
Instructional support	832,919	756,319
District administration	640,528	856,181
School administration	1,082,249	901,659
Business support services	267,027	272,474
Plant operations and management	1,989,852	1,891,608
Student transportation	928,653	1,169,120
Food services operation	1,163,319	1,137,637
Enterprise operation	12,609	14,791
Child care services	126,916	166,779
Community services	307,290	300,983
Interest on long-term debt	632,785	764,286
<u>Total expenses</u>	<u>19,251,992</u>	<u>19,398,745</u>
<u>Change in net assets</u>	<u>1,443,490</u>	<u>633,877</u>

- State and federal revenue sources reflect increases due to American Recovery and Reinvestment Act funding received and expended.

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2010

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 \$661,854 in contingency (5.05%).

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 level 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 the Finance Officer at (606) 674-6314.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF NET ASSETSAt June 30, 2010

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	4,291,090	283,573	4,574,663
Accounts receivable:			
Taxes - current	22,470	-	22,470
Taxes - delinquent	17,706	-	17,706
Other	52,148	-	52,148
Intergovernmental - State	18,740	71,836	90,576
Intergovernmental - indirect Federal	549,092	-	549,092
Inventories	-	4,534	4,534
	<u>4,951,246</u>	<u>359,943</u>	<u>5,311,189</u>
<u>Total current assets</u>			
- Noncurrent Assets -			
Capital assets	31,629,486	804,381	32,433,867
Less: accumulated depreciation	<u>(9,326,047)</u>	<u>(263,188)</u>	<u>(9,589,235)</u>
	<u>22,303,439</u>	<u>541,193</u>	<u>22,844,632</u>
<u>Total noncurrent assets</u>			
<u>Total assets</u>	<u>27,254,685</u>	<u>901,136</u>	<u>28,155,821</u>
Liabilities:			
- Current liabilities -			
Cash deficit balance	279,648	-	279,648
Accounts payable	77,364	7,975	85,339
Current portion of accumulated sick leave	39,463	-	39,463
Deferred revenues	323,062	-	323,062
Current portion of bond/lease obligations	873,757	-	873,757
Interest payable	632,785	-	632,785
	<u>2,226,079</u>	<u>7,975</u>	<u>2,234,054</u>
<u>Total current liabilities</u>			
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	<u>15,981,286</u>	<u>-</u>	<u>15,981,286</u>
	<u>15,981,286</u>	<u>-</u>	<u>15,981,286</u>
<u>Total noncurrent liabilities</u>			
<u>Total liabilities</u>	<u>18,207,365</u>	<u>7,975</u>	<u>18,215,340</u>
Net assets:			
Invested in capital assets, net of related debt	4,815,611	541,193	5,356,804
Restricted for:			
Sick leave	35,898	-	35,898
Inventories	-	4,534	4,534
Unrestricted	<u>4,195,811</u>	<u>347,434</u>	<u>4,543,245</u>
	<u>9,047,320</u>	<u>893,161</u>	<u>9,940,481</u>
<u>Total net assets</u>			
<u>Total liabilities and net assets</u>	<u>27,254,685</u>	<u>901,136</u>	<u>28,155,821</u>

See notes to financial statements.

10.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instruction	10,533,082	-	5,426,293	-
Support services:				
Student	734,763	-	277,600	-
Instructional staff	832,919	-	591,731	-
District administration	640,528	-	94,527	-
School administration	1,082,249	-	302,458	-
Business support	267,027	-	61,548	-
Plant operation & maintenance	1,989,852	-	148,463	-
Student transportation	928,653	-	183,655	-
Enterprise operations	12,609	-	-	-
Community services activities	307,290	-	288,920	-
Interest on long-term debt	632,785	-	-	-
	<u>17,961,757</u>	<u>-</u>	<u>7,375,195</u>	<u>-</u>
<u>Total governmental activities</u>				
- Business-type Activities -				
Food service	1,163,319	218,780	956,259	550,005
Child care	126,916	76,723	52,051	-
	<u>1,290,235</u>	<u>295,503</u>	<u>1,008,310</u>	<u>550,005</u>
<u>Total business-type activities</u>				
<u>Total primary government</u>	<u>19,251,992</u>	<u>295,503</u>	<u>8,383,505</u>	<u>550,005</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)

For the Year Ended June 30, 2010

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
	(5,106,789)	-	(5,106,789)
	(457,163)	-	(457,163)
	(241,188)	-	(241,188)
	(546,001)	-	(546,001)
	(779,791)	-	(779,791)
	(205,479)	-	(205,479)
	(1,841,389)	-	(1,841,389)
	(744,998)	-	(744,998)
	(12,609)	-	(12,609)
	(18,370)	-	(18,370)
	(632,785)	-	(632,785)
	<u>(10,586,562)</u>	<u>-</u>	<u>(10,586,562)</u>
	-	561,725	561,725
	-	1,858	1,858
	-	563,583	563,583
	<u>(10,586,562)</u>	<u>563,583</u>	<u>(10,022,979)</u>
General revenues:			
Taxes	1,888,653	-	1,888,653
Investment earnings	222,385	1,302	223,687
State and formula grants	9,234,599	-	9,234,599
Miscellaneous	114,656	4,874	119,530
	<u>11,460,293</u>	<u>6,176</u>	<u>11,466,469</u>
Change in net assets	873,731	569,759	1,443,490
Net assets - beginning of year - restated	<u>8,173,589</u>	<u>323,402</u>	<u>8,496,991</u>
Net assets - end of year	<u>9,047,320</u>	<u>893,161</u>	<u>9,940,481</u>
See notes to financial statements.			

BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2010

	General Fund	Special Revenue Fund	Other Gov't Funds	Total Gov't Funds
Assets and resources:				
Cash and cash equivalents	3,904,267	-	386,823	4,291,090
Accounts receivable:				
Taxes - current	22,470	-	-	22,470
Taxes - delinquent	17,706	-	-	17,706
Other	3,934	48,214	-	52,148
Intergovernmental - State	700	18,040	-	18,740
Intergovernmental - Indirect Federal	-	549,092	-	549,092
	<u>3,949,077</u>	<u>615,346</u>	<u>386,823</u>	<u>4,951,246</u>
Total assets and resources				
	<u>3,949,077</u>	<u>615,346</u>	<u>386,823</u>	<u>4,951,246</u>
Liabilities and fund balances:				
Cash deficit	-	279,648	-	279,648
Accounts payable	64,728	12,636	-	77,364
Current portion of accumulated sick leave	39,463	-	-	39,463
Deferred revenue	-	323,062	-	323,062
	<u>104,191</u>	<u>615,346</u>	<u>-</u>	<u>719,537</u>
Total liabilities				
	<u>104,191</u>	<u>615,346</u>	<u>-</u>	<u>719,537</u>
Fund balance				
Reserved for sick leave	35,898	-	-	35,898
Reserved for SFCC escrow/construction	-	-	251,231	251,231
Undesignated fund balance	3,808,988	-	135,592	3,944,580
	<u>3,844,886</u>	<u>-</u>	<u>386,823</u>	<u>4,231,709</u>
Total fund balances				
	<u>3,844,886</u>	<u>-</u>	<u>386,823</u>	<u>4,231,709</u>
Total liabilities and fund balances				
	<u>3,949,077</u>	<u>615,346</u>	<u>386,823</u>	<u>4,951,246</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2010

Total fund balance per fund financial statements	4,231,709
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net assets.	22,303,439
Certain liabilities (such as bonds payable and accrued interest on debt obligations) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net assets.	<u>(17,487,828)</u>
Net assets for governmental activities	<u><u>9,047,320</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDSFor the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:				
From local sources:				
Taxes	1,686,833	-	201,820	1,888,653
Earnings on investments	21,358	201,027	-	222,385
Other local revenue	45,986	56,968	-	102,954
Intergovernmental - state	10,647,773	959,387	1,373,097	12,980,257
Intergovernmental - indirect federal	76,392	3,553,145	-	3,629,537
Other revenue	24,076	-	-	24,076
	<u>12,502,418</u>	<u>4,770,527</u>	<u>1,574,917</u>	<u>18,847,862</u>
<u>Total revenues</u>				
Expenditures:				
Instruction	6,821,599	3,616,174		10,437,773
Student support services	536,766	173,001		709,767
Staff support services	289,640	520,665		810,305
District administration	608,031	6,372		614,403
School administration	1,032,672	38,993		1,071,665
Business support services	255,027	10,369		265,396
Plant operations and management	1,419,128	33,759		1,452,887
Student transportation	875,848	65,384		941,232
Food service operations	12,609	-		12,609
Community services	15,913	288,920		304,833
Facilities acquisition and construction	-	-	2,110,571	2,110,571
Debt service:				
Principal	-	-	1,025,488	1,025,488
Interest	-	-	664,090	664,090
	<u>11,867,233</u>	<u>4,753,637</u>	<u>3,800,149</u>	<u>20,421,019</u>
<u>Total expenditures</u>				
Excess (deficit) of revenues over expenditures	<u>635,185</u>	<u>16,890</u>	<u>(2,225,232)</u>	<u>(1,573,157)</u>
Other financing sources (uses):				
Operating transfers in	-	44,220	951,348	995,568
Operating transfers out	(236,135)	(61,110)	(701,095)	(998,340)
	<u>(236,135)</u>	<u>(16,890)</u>	<u>250,253</u>	<u>(2,772)</u>
<u>Total other financing sources (uses)</u>				
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	399,050	-	(1,974,979)	(1,575,929)
Fund balance - July 1, 2009	<u>3,445,836</u>	<u>-</u>	<u>2,361,802</u>	<u>5,807,638</u>
Fund balance - June 30, 2010	<u>3,844,886</u>	<u>-</u>	<u>386,823</u>	<u>4,231,709</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2010

Net change in total fund balances per fund financial statements	(1,575,929)
Amounts reported for governmental activities in the statement of activities differences:	
Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which depreciation exceeds capital outlay for the year.	1,459,914
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets. Interest paid on debt service is reflected when paid on the fund financial statements	<u>989,746</u>
Change in net assets of governmental activities	<u><u>873,731</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
From local sources:				
Taxes	1,540,000	1,490,000	1,686,833	196,833
Earnings on investments	100,000	15,000	21,358	6,358
Other local revenue	1,500	1,500	45,986	44,486
Intergovernmental - state	9,003,674	8,112,806	10,647,773	2,534,967
Intergovernmental - indirect federal	15,000	10,000	76,392	66,392
Other revenue	500	500	24,076	23,576
	<u>10,660,674</u>	<u>9,629,806</u>	<u>12,502,418</u>	<u>2,872,612</u>
 Expenditures:				
Instruction	6,661,860	6,464,932	6,821,599	(356,667)
Student support services	385,835	438,054	536,766	(98,712)
Staff support services	253,345	233,571	289,640	(56,069)
District administration	1,107,805	1,135,027	608,031	526,996
School administration	964,950	841,999	1,032,672	(190,673)
Business support services	321,719	202,596	255,027	(52,431)
Plant operations and management	1,767,031	1,769,179	1,419,128	350,051
Student transportation	1,040,896	1,041,050	875,848	165,202
Enterprise operations	13,529	-	-	-
Food service operations	-	-	12,609	(12,609)
Community services	-	18,572	15,913	2,659
Contingency	413,704	661,854	-	661,854
	<u>12,930,674</u>	<u>12,806,834</u>	<u>11,867,233</u>	<u>939,601</u>
 Excess (deficit) of revenues over expenditures	<u>(2,270,000)</u>	<u>(3,177,028)</u>	<u>635,185</u>	<u>(3,812,213)</u>
 Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(230,000)	(300,000)	(236,135)	63,865
	<u>(230,000)</u>	<u>(300,000)</u>	<u>(236,135)</u>	<u>63,865</u>
 Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(2,500,000)</u>	<u>(3,477,028)</u>	<u>399,050</u>	<u>3,876,078</u>
 Fund balance, unreserved - July 1, 2009	<u>2,500,000</u>	<u>3,477,028</u>	<u>3,409,938</u>	<u>(67,090)</u>
 Fund balance, unreserved - June 30, 2010	<u>-</u>	<u>-</u>	<u>3,808,988</u>	<u>3,808,988</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDFor the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
From local sources:				
Earnings on investments	170,280	191,700	201,027	9,327
Other local revenue	-	(13,246)	56,968	70,214
Intergovernmental - state	943,371	963,246	959,387	(3,859)
Intergovernmental - indirect federal	1,654,153	3,124,295	3,553,145	428,850
<u>Total revenues</u>	<u>2,767,804</u>	<u>4,265,995</u>	<u>4,770,527</u>	<u>504,532</u>
Expenditures:				
Instructional	1,933,798	3,251,821	3,616,174	(364,353)
Student support services	165,137	224,932	173,001	51,931
Staff support services	351,189	456,607	520,665	(64,058)
District administration	-	(13,335)	6,372	(19,707)
School administration	-	35,750	38,993	(3,243)
Business support services	9,787	26,477	10,369	16,108
Plant operations and management	28,955	39,820	33,759	6,061
Student transportation	44,966	58,476	65,384	(6,908)
Daycare operations	-	(1,901)	-	(1,901)
Community service activities	264,450	247,837	288,920	(41,083)
<u>Total expenditures</u>	<u>2,798,282</u>	<u>4,326,484</u>	<u>4,753,637</u>	<u>(427,153)</u>
Excess (deficit) of revenues over expenditures	<u>(30,478)</u>	<u>(60,489)</u>	<u>16,890</u>	<u>(77,379)</u>
Other financing sources (uses):				
Operating transfers in	93,761	121,599	44,220	(77,379)
Operating transfers out	<u>(63,283)</u>	<u>(61,110)</u>	<u>(61,110)</u>	<u>-</u>
<u>Total other financing sources (uses)</u>	<u>30,478</u>	<u>60,489</u>	<u>(16,890)</u>	<u>(77,379)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	-	-	-
Fund balance - July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30, 2010	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

At June 30, 2010

	Food Service <u>Fund</u>	Other Proprietary <u>Funds</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	278,256	5,317	283,573
Accounts receivable:			
Intergovernmental - State	71,836	-	71,836
Inventories	<u>4,534</u>	<u>-</u>	<u>4,534</u>
<u>Total current assets</u>	<u>354,626</u>	<u>5,317</u>	<u>359,943</u>
- Noncurrent Assets -			
Capital assets	804,381	-	804,381
Less: accumulated depreciation	<u>(263,188)</u>	<u>-</u>	<u>(263,188)</u>
<u>Total noncurrent assets</u>	<u>541,193</u>	<u>-</u>	<u>541,193</u>
<u>Total assets</u>	<u>895,819</u>	<u>5,317</u>	<u>901,136</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	<u>7,725</u>	<u>250</u>	<u>7,975</u>
<u>Total current liabilities</u>	<u>7,725</u>	<u>250</u>	<u>7,975</u>
Net assets:			
Investments in capital assets	541,193	-	541,193
Reserved for inventories	4,534	-	4,534
Unreserved	<u>342,367</u>	<u>5,067</u>	<u>347,434</u>
<u>Total net assets</u>	<u>888,094</u>	<u>5,067</u>	<u>893,161</u>
<u>Total liabilities and net assets</u>	<u>895,819</u>	<u>5,317</u>	<u>901,136</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDS

For the Year Ended June 30, 2010

	Food service <u>Fund</u>	Other Proprietary <u>Funds</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	218,780	-	218,780
Tuition from individuals	-	76,723	76,723
Revenues from local sources	2,087	15	2,102
Revenues from state sources	<u>91,589</u>	<u>52,051</u>	<u>143,640</u>
<u>Total operating revenues</u>	<u>312,456</u>	<u>128,789</u>	<u>441,245</u>
Operating expense:			
Salaries and wages	553,881	119,629	673,510
Contract services	10,940	105	11,045
Materials and supplies	551,982	7,182	559,164
Depreciation	42,767	-	42,767
Other operating expenses	<u>3,749</u>	<u>-</u>	<u>3,749</u>
<u>Total operating expenses</u>	<u>1,163,319</u>	<u>126,916</u>	<u>1,290,235</u>
<u>Operating income (loss)</u>	<u>(850,863)</u>	<u>1,873</u>	<u>(848,990)</u>
Nonoperating Revenue/(Expense):			
Federal grants	851,490	-	851,490
State grants	13,180	-	13,180
Contributed Capital	550,005	-	550,005
Transfers in (out)	-	2,772	2,772
Interest income	<u>1,302</u>	<u>-</u>	<u>1,302</u>
<u>Total nonoperating revenue/(expense)</u>	<u>1,415,977</u>	<u>2,772</u>	<u>1,418,749</u>
<u>Net income (loss)</u>	565,114	4,645	569,759
Net assets, July 1, 2009	<u>322,980</u>	<u>422</u>	<u>323,402</u>
Net assets, June 30, 2010	<u>888,094</u>	<u>5,067</u>	<u>893,161</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2010

	Food service Fund	Other Proprietary Funds	Total
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	220,867	-	220,867
Tuition from individuals	-	128,789	128,789
Cash paid to/for:			
Employees	(462,292)	(119,629)	(581,921)
Supplies/Contractual	(565,860)	(7,037)	(572,897)
Other activities	(3,749)	-	(3,749)
	<u>(811,034)</u>	<u>2,123</u>	<u>(808,911)</u>
Cash flows from capital and related financing activities:			
Purchases/disposal of fixed assets	(680)	-	(680)
Cash flows from investing activities:			
Interest income	1,302	-	1,302
Cash flows from financing activities:			
Federal grants	796,906	-	796,906
State grants	13,180	-	13,180
Transfers in	-	2,772	2,772
	<u>810,086</u>	<u>2,772</u>	<u>812,858</u>
Net increase (decrease) in cash	(326)	4,895	4,569
Cash, beginning of year	278,582	422	279,004
Cash, end of year	278,256	5,317	283,573
Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(850,863)	1,873	(848,990)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	42,767	-	42,767
Changes in current assets/liabilities			
Inventories	(2,204)	-	(2,204)
Accounts payable	(734)	250	(484)
	<u>(811,034)</u>	<u>2,123</u>	<u>(808,911)</u>

Noncash transactions include on behalf payments by the State Department of Education of \$91,589 for the School Food Service Program and \$22,148 for the Child Care Program regarding employee benefit payments. Also, \$308,000 designated as capital contributions for the food service fund's apportioned cost of Crossroads Elementary School and new food service equipment in the amount of \$242,005.

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2010

	<u>Activity Fund</u>	<u>Scholarship Fund</u>
Assets:		
Cash and cash equivalents	193,750	1,000
Accounts receivable	<u>80</u>	<u>-</u>
<u>Total assets</u>	<u>193,830</u>	<u>1,000</u>
Liabilities:		
Accounts payable	6,152	-
Due to individual student activity account funds	<u>187,678</u>	<u>-</u>
<u>Total liabilities</u>	<u>193,830</u>	<u>-</u>
Net assets:		
Unreserved	<u>-</u>	<u>1,000</u>
<u>Total liabilities and net assets</u>	<u>193,830</u>	<u>1,000</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF CHANGES IN FIDUCIARY NET ASSETSAt June 30, 2010

	<u>Scholarship Fund</u>
Additions:	
Contributions	1,000
Deductions:	
Scholarship payments	<u>-</u>
Change in net assets	1,000
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>1,000</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bath County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Bath County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board 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 purposes, includes all of the funds and account groups relevant to the operation of the Bath County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board 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 or the respective governing board.

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

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

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

C. C. Chenault Memorial Trust

The Trust was created to establish agricultural programs for the District. The District receives a quarterly payment from the trust for its agricultural programs. The Trust maintains separate accounting records and is not governed or managed by the District.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation

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

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

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

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

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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

using GASB standards as well as standards issued by the FASB through November 1989 and that do not conflict with GASB Standards. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations.

The District has the following funds:

I. Governmental Fund Types

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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The Childcare fund and Preschool fund accounts for revenues and expenditures related to daycare services and preschool activities.

III. Fiduciary Fund Types (includes agency and trust funds)

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

The Scholarship Fund is an endowment fund. The principal and interest earned may be used for scholarships to Bath County High School students.

Basis of Accounting

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

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

Nonexchange 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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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.

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

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

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. 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, 2010, to finance the General Fund operations were \$.372 per \$100 valuation for real property, \$.372 per \$100 valuation for business personal property and \$.462 per \$100 valuation for motor vehicles.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Property Taxes (continued)

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

Capital Assets

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

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

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>Governmental Activities 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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2010.

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. The District has set aside a board authorized reserve in the amount of \$35,898 for accumulated sick leave.

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 differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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, 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 District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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.

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.

NOTE B – 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.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$6,378,465. The total cash balance was covered by Federal depository insurance or a collateral agreement 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.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. 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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

Cash and cash equivalents at June 30, 2010 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Central Bancshares, Inc.		
Checking Account	8,332,637	4,474,754
Certificate of Deposit	<u>15,011</u>	<u>15,011</u>
<u>Total</u>	<u>8,347,648</u>	<u>4,489,765</u>

Composition per financial statements:

Governmental funds	4,011,442
Proprietary funds	283,573
Agency funds	<u>194,750</u>
	<u>4,489,765</u>

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1996	185,000	5.00% - 5.70%
1998	2,195,000	4.00% - 4.25%
2001	515,000	2.60% - 4.25%

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2003	955,000	1.10% - 2.00%
2004	850,000	2.00% - 5.00%
2004	123,315	1.00% - 3.15%
2006	132,173	3.30% - 4.00%
2005	5,665,000	3.00% - 4.25%
2006	208,738	3.50% - 3.875%
2008	705,000	3.30% - 4.30%
2008	159,075	2.40% - 4.00%
2008	8,975,000	2.30% - 4.00%
2009	120,186	2.00% - 3.90%

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.

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

In 1988, 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, 2010, for debt service (principal and interest) are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2010-11	506,910	366,847	328,034	304,751	1,506,542
2011-12	514,901	375,311	309,563	293,507	1,493,282
2012-13	470,203	395,912	291,879	281,535	1,439,529
2013-14	463,869	407,277	274,694	268,278	1,414,118
2014-15	470,062	419,321	257,639	254,261	1,401,283
2015-16	480,414	432,350	240,124	239,385	1,392,273
2016-17	487,673	431,075	221,796	223,607	1,364,151

BATH COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

	Principal		Interest		Total
	Board	KSFCC	Board	KSFCC	
2017-18	480,858	450,622	202,918	207,880	1,342,278
2018-19	480,579	460,859	184,098	191,321	1,316,857
2019-20	488,130	456,870	165,967	174,095	1,285,062
2020-21	506,545	478,455	146,742	156,640	1,288,382
2021-22	530,433	494,567	126,834	138,148	1,289,982
2022-23	551,923	513,077	105,726	118,857	1,289,583
2023-24	573,875	531,125	83,505	98,530	1,287,035
2024-25	596,858	488,142	59,892	77,361	1,222,253
2025-26	621,106	493,894	34,903	58,296	1,208,199
2026-27	224,100	480,900	18,239	39,461	762,700
2027-28	231,865	498,135	9,275	20,075	759,350
<u>Totals</u>	<u>8,680,304</u>	<u>8,174,739</u>	<u>3,061,828</u>	<u>3,145,988</u>	<u>23,062,859</u>

Following are changes in long-term debt:

	Balance, <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance, <u>June 30, 2010</u>
September 1996 Issue	90,000	-	(10,000)	80,000
December 1997 Issue	290,000	-	(290,000)	-
September 1998 Issue	935,000	-	(170,000)	765,000
KISTA November 2001	175,000	-	(55,000)	120,000
April 2003 KISTA Series	93,780	-	(24,383)	69,397
June 2004 Series	690,000	-	(35,000)	655,000
January 2004 KISTA Series	60,954	-	(12,410)	48,544
August 2005 Series	5,555,000	-	(25,000)	5,530,000
January 2006 KISTA Series	92,494	-	(12,588)	79,906
September 2006 KISTA Series	168,202	-	(19,131)	149,071
January 2008 Series	680,000	-	(25,000)	655,000
KISTA 2008 Series	142,868	-	(17,250)	125,618
May 2008 Issue	8,720,000	-	(250,000)	8,470,000
January 2009 Issue	120,186	-	(12,679)	107,507
<u>Totals</u>	<u>17,813,484</u>	<u>-</u>	<u>(958,441)</u>	<u>16,855,043</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District's participation in the KISTA New Market Tax Credit Program, also known as the Central Kentucky Equipment Acquisition Program (KTEAP), allowed each school to acquire computer equipment. In order to participate, the District entered into a technology equipment lease agreement with the Central Kentucky Educational Cooperative, Inc. requiring semiannual payments of \$33,525.80 beginning May 15, 2007. The total cost for the District is \$335,258. Following is a schedule for the capital lease arrangement:

Capital Lease Obligation

<u>Year</u>	<u>Amount</u>
2010-11	67,051
2011-12	<u>33,526</u>
Total	<u>100,577</u>

Changes in capital lease obligations are as follows:

<u>Balance,</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>6/30/2010</u>
<u>234,680</u>	<u>-</u>	<u>(67,051)</u>	<u>167,629</u>

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Governmental Activities</u>				
Land	283,317	235,000	-	518,317
Land improvements	908,665	40,986	-	949,651
Buildings and improvements	15,915,334	9,500,011	-	25,415,345
Technology equipment	1,187,551	157,545	102,094	1,243,002
Vehicles	2,360,974	248,709	150,277	2,459,406
General equipment	653,341	80,601	13,013	720,929
Construction in progress	<u>7,472,721</u>	<u>-</u>	<u>7,149,885</u>	<u>322,836</u>
<u>Totals at historical cost</u>	<u>28,781,903</u>	<u>10,262,852</u>	<u>7,415,269</u>	<u>31,629,486</u>

BATH COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE E – CAPITAL ASSETS (continued)

	Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2010</u>
<u>Governmental Activities</u>				
Less: accumulated depreciation				
Land and improvements	695,616	30,672	-	726,288
Buildings and improvements	4,939,338	721,726	-	5,661,064
Vehicles	1,689,056	143,123	150,275	1,681,904
Technology equipment	770,860	159,921	87,038	843,743
General equipment	375,011	44,632	6,595	413,048
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total accumulated depreciation</u>	<u>8,469,881</u>	<u>1,100,074</u>	<u>243,908</u>	<u>9,326,047</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>27,158,816</u>	<u>9,162,778</u>	<u>7,171,361</u>	<u>22,303,439</u>
	Balance			Balance
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
<u>Business-Type Activities</u>				
Buildings and improvements	-	308,000	-	308,000
Food service and equipment	257,617	242,005	10,104	489,518
Technology equipment	6,129	786	-	6,915
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Totals at historical cost</u>	<u>263,746</u>	<u>550,791</u>	<u>10,104</u>	<u>804,433</u>
Less: accumulated depreciation				
Food service and equipment	-	12,833	-	12,833
Food service and equipment	227,219	29,006	10,000	246,225
Technology equipment	3,252	824	-	4,076
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total accumulated depreciation</u>	<u>230,471</u>	<u>42,663</u>	<u>10,000</u>	<u>263,134</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>33,275</u>	<u>508,128</u>	<u>104</u>	<u>541,299</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instructional	330,519
Student support service	24,996
Instructional staff support	22,614
District administration	26,125
School administration	10,584
Business support services	1,631
Plant operations and management	536,965
Student transportation	144,183
Community service activities	150
Adult education	<u>2,307</u>
 Total Depreciation Expense	
- Governmental Functions	<u>1,100,074</u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2010, as follows:

Year ending June 30:	
2011	64,175
2012	64,175
2013	53,479
2014	<u>-</u>
 Total Minimum Rentals	<u>181,829</u>

NOTE G – RETIREMENT PLANS

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 and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010**NOTE G – RETIREMENT PLANS (continued)**

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS and 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

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 benefits is a cost-sharing multiple employer defined benefits 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 – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Bath County Public School District's total payroll for the year was \$10,758,364. The payroll for employees covered under KTRS was \$8,246,399. For the year ended June 30, 2010, the Commonwealth contributed \$883,278 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2010 were \$201,562, which represents those employees covered by federal programs. Employees contributions for KTRS were \$817,096.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE G – RETIREMENT PLANS (continued)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 16.16% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,416,059.

The contribution requirement for CERS for the year ended June 30, 2010 was \$438,933 which consisted of \$390,434 from the District and \$121,382 from the employees.

Following is a summary of contributions paid by the District on-behalf of the employees for the past three years:

Year Ended	Teacher's Retirement		County
<u>June 30,</u>	<u>District</u>	<u>State</u>	<u>Retirement</u>
2010	201,562	817,096	390,434
2009	127,405	935,195	324,285
2008	114,478	917,353	391,010

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS	CERS
	<u>as of June 30, 2009</u>	<u>as of June 30, 2009</u>
	(in millions of dollars)	(in millions of dollars)
Actuarial accrued liabilities	23,400.4	10,491.4
Actuarial value of assets	<u>14,886.0</u>	<u>7,402.3</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>8,514.4</u>	<u>3,089.1</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2009 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE H – COMMITMENTS

An option to purchase the Salt Lick Elementary School property was entered into by the City of Salt Lick for an exercise price of \$143,000.

The Owingsville Elementary School – Roof Replacement Project, to be financed with capital outlay and excess funds on completed projects was approved with revisions on August 2010 at an estimated cost of \$437,563.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and 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.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE L – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for worker's compensation, errors, omissions, general liability, and property insurance to minimize its risk.

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.

NOTE M – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2010:

None

The following funds had expenditures in excess of revenues at June 30, 2010:

Bath Co. High School Activity Fund	6,594
Salt Lick Elementary Activity Fund	12,243
Bethel Elementary Activity Fund	3,736
Owingsville Elementary Activity Fund	1,151

Expenditures for Bethel and Salt Lick Elementary Activity Funds in 2009 -10 were transfers to close the funds and forward to active school accounts.

NOTE N – COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	Construction	Building additions and renovation	29,222
Capital Outlay	Debt Service	Bond principal and interest	41,290
FSPK Fund	Debt Service	Bond principal and interest	630,583
Special Revenue	Debt Service	Bond principal and interest	61,110
General Fund	Debt Service	Bond principal and interest	189,143
General Fund	Special Revenue	KETS Grant Match	44,220
General Fund	Child Care	Transfer for operating expense	2,772
		<u>Total</u>	<u>998,340</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE P – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2009 were \$-0-.

NOTE Q – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2010, fund balances/retained earnings originally reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>
Fund Balance/Retained Earnings as originally reported to the Department of Education	3,786,348	-	386,823	277,928
Adjustment to Fund Balance/Retained Earnings				
(1) To record additional accounts receivable	12,125	-	-	71,836
(2) Adjust inventory	-	-	-	2,204
(3) To adjust accounts payable	46,413	-	-	-
(4) Record net fixed assets	-	-	-	541,193
Fund Balance/Retained Earnings per fund financial statements at June 30, 2010	<u>3,844,886</u>	<u>-</u>	<u>386,823</u>	<u>893,161</u>

NOTE R – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2010:

Kentucky Teacher's Retirement System	883,431
Health Insurance	2,001,573
Life Insurance	5,506
Administrative Fees	17,540
Health Reimbursement Account	72,888
Less: Federal Reimbursement	(249,233)
Career & Technical Education	4,051
Total	<u>2,735,756</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2010NOTE R – ON-BEHALF PAYMENTS (continued)

General Fund	2,621,558
Food Service Fund	91,589
Child Care Fund	<u>22,609</u>
Total	<u><u>2,735,756</u></u>

NOTE S – BEGINNING NET ASSET RESTATEMENT –
GOVERNMENT – WIDE NET ASSETS

The District's government-wide financial statements reflect an adjustment to recognize the completed cost and allocation of Crossroads Elementary School. The adjustment increased beginning net assets for governmental activities by \$531,503.

NOTE T – NEW ACCOUNTING STANDARD IMPLEMENTATION

The District will implement Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard will clarify existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a governmental is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable, restricted, committed and unassigned*. The standard will affect fund balance reporting only and not affect government-wide or proprietary fund financial statements.

BATH COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2010

	SEEK Capital <u>Outlay Fund</u>	Building <u>Fund</u>	Construction <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Asset and resources:					
Cash and cash equivalents	<u>135,592</u>	<u>15,703</u>	<u>235,528</u>	<u>-</u>	<u>386,823</u>
Liabilities and fund balances:					
- Liabilities -					
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -					
Reserved for Future Construction	<u>-</u>	<u>15,703</u>	<u>235,528</u>	<u>-</u>	<u>251,231</u>
Unreserved fund balance	<u>135,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,592</u>
Total fund balances	<u>135,592</u>	<u>15,703</u>	<u>235,528</u>	<u>-</u>	<u>386,823</u>
Total liabilities and fund balances	<u>135,592</u>	<u>15,703</u>	<u>235,528</u>	<u>-</u>	<u>386,823</u>

BATH COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2010

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Construction <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:					
From local sources:					
General real property tax	-	201,820	-	-	201,820
Intergovernmental - State	<u>176,882</u>	<u>428,763</u>	<u>-</u>	<u>767,452</u>	<u>1,373,097</u>
<u>Total revenues</u>	<u>176,882</u>	<u>630,583</u>	<u>-</u>	<u>767,452</u>	<u>1,574,917</u>
Expenditures:					
Facilities acquisition & construction	-	-	2,110,571	-	2,110,571
Debt service:					
Principal	-	-	-	1,025,488	1,025,488
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>664,090</u>	<u>664,090</u>
<u>Total expenditures</u>	<u>-</u>	<u>-</u>	<u>2,110,571</u>	<u>1,689,578</u>	<u>3,800,149</u>
Excess (deficit) of revenues over expenditures	<u>176,882</u>	<u>630,583</u>	<u>(2,110,571)</u>	<u>(922,126)</u>	<u>(2,225,232)</u>
Other financing sources (uses):					
Operating transfers in	-	-	29,222	922,126	951,348
Operating transfers out	<u>(70,512)</u>	<u>(630,583)</u>	<u>-</u>	<u>-</u>	<u>(701,095)</u>
<u>Total other financing sources (uses)</u>	<u>(70,512)</u>	<u>(630,583)</u>	<u>29,222</u>	<u>922,126</u>	<u>250,253</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	106,370	-	(2,081,349)	-	(1,974,979)
Fund balance, July 1, 2009	<u>29,222</u>	<u>15,703</u>	<u>2,316,877</u>	<u>-</u>	<u>2,361,802</u>
Fund balance, June 30, 2010	<u><u>135,592</u></u>	<u><u>15,703</u></u>	<u><u>235,528</u></u>	<u><u>-</u></u>	<u><u>386,823</u></u>

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBATH COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2010

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of <u>Revenues over</u> <u>Expenditures</u>	<u>Fund Balance</u> <u>July 1, 2009</u>	<u>Fund Balance</u> <u>June 30, 2010</u>
General	15,051	17,145	(2,094)	10,680	8,586
Picture fund	4,525	6,772	(2,247)	2,247	-
Academic fund	-	-	-	100	100
Guidance	1,159	1,183	(24)	1,100	1,076
Graduation academy	-	10	(10)	10	-
After Prom	750	2,579	(1,829)	1,829	-
Talented and gifted	1,238	1,148	90	68	158
Senior trip	33,384	32,834	550	46	596
Faculty	1,832	2,151	(319)	744	425
Beta club	4,190	6,427	(2,237)	6,560	4,323
Bookstore	329	158	171	-	171
FBLA	6,429	5,603	826	394	1,220
FCCLA	2,974	3,312	(338)	458	120
FFA	5,590	6,507	(917)	1,594	677
Library club	1,352	1,461	(109)	190	81
Spirit club	-	99	(99)	99	-
TSA club	-	225	(225)	1,256	1,031
FCA	90	209	(119)	119	-
Ag. mechanics	2,393	2,313	80	3,004	3,084
Agr. science	905	-	905	3,181	4,086
Art	-	-	-	165	165
Band	-	-	-	54	54
Chorus	-	106	(106)	106	-
Horticulture	16,666	16,613	53	21,655	21,708
Journalism	12,790	1,589	11,201	8,094	19,295
Spanish club	1,129	1,208	(79)	546	467
Health and Science	575	575	-	-	-
Consumer sciences	1,187	1,145	42	7	49
Athletics	44,842	56,520	(11,678)	26,048	14,370
Athletics baseball	500	728	(228)	493	265
Athletics boys basketball	1,550	1,646	(96)	469	373
Cheerleaders	3,057	2,923	134	350	484
Boys cross country	500	625	(125)	397	272
Football	2,800	2,840	(40)	776	736
Girls cross country	500	389	111	633	744
Athletics girls basketball	2,286	2,926	(640)	1,157	517
Girls softball	500	1,098	(598)	617	19
Girls Track	500	190	310	317	627
Boys golf	500	1,012	(512)	760	248
Girls golf	500	584	(84)	909	825
Tennis	500	490	10	519	529

This fund maintains accounts separate from MUNIS at June 30, 2010.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBATH COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2010

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of <u>Revenues over</u> <u>Expenditures</u>	<u>Fund Balance</u> <u>July 1, 2009</u>	<u>Fund Balance</u> <u>June 30, 2010</u>
Boys soccer	500	450	50	80	130
Girls soccer	1,248	1,194	54	41	95
Track	500	190	310	317	627
Girls volleyball	603	1,285	(682)	1,151	469
Junior class	20,567	18,956	1,611	2,475	4,086
Sophomore class	6,841	6,025	816	4,061	4,877
Senior class	4,724	3,512	1,212	139	1,351
Freshman class	5,087	4,332	755	1,818	2,573
Youth service center	100	537	(437)	681	244
YSC-CI fun	-	13	(13)	14	1
Job Coach Program	-	-	-	8	8
Certificate of deposit	-	-	-	11	11
	<u>213,243</u>	<u>219,838</u>	<u>(6,594)</u>	<u>108,547</u>	<u>101,953</u>
<u>Sub-total</u>					
Less: Interfund transfers	<u>(22,117)</u>	<u>(22,117)</u>	<u>-</u>	<u>-</u>	<u>-</u>
			<u>-</u>		
<u>Total</u>	<u>191,126</u>	<u>197,721</u>	<u>(6,594)</u>	<u>108,547</u>	<u>101,953</u>

This fund maintains accounts separate from MUNIS at June 30, 2010.

BATH COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEMIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2010

	Bath County Middle School	Crossroads Elementary	Bethel Elementary	Salt Lick Elementary	Owingsville Elementary	Total (Memorandum Only)
<u>REVENUES:</u>						
Activity funds	105,232	71,299	-	-	40,361	216,892
<u>EXPENDITURES:</u>						
Activity funds	<u>104,513</u>	<u>43,264</u>	<u>3,736</u>	<u>12,243</u>	<u>41,512</u>	<u>205,268</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	719	28,035	(3,736)	(12,243)	(1,151)	11,624
Fund Balance, July 1, 2009	<u>29,941</u>	<u>-</u>	<u>3,736</u>	<u>12,243</u>	<u>28,181</u>	<u>74,101</u>
Fund Balance, June 30, 2010	<u><u>30,660</u></u>	<u><u>28,035</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>27,030</u></u>	<u><u>85,725</u></u>

These funds maintain accounts separate from MUNIS at June 30, 2010.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTSAt June 30, 2010

Below are minimum obligations for each individual issue:

<u>School Year</u>	<u>April 2003 (KISTA)</u>		<u>September 1996 Issue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010 - 11	25,258	2,663	10,000	4,550
2011 - 12	21,632	1,716	10,000	3,990
2012 - 13	22,507	877	15,000	3,420
2013 - 14	-	-	15,000	2,565
2014 - 15	-	-	15,000	1,710
2015 - 16	-	-	15,000	855
<u>Totals</u>	<u>69,397</u>	<u>5,256</u>	<u>80,000</u>	<u>17,090</u>

<u>School Year</u>	<u>September 1998 Issue</u>			
	<u>KSFCC</u>		<u>District</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010 - 11	15,966	7,725	179,034	20,075
2011 - 12	20,561	6,982	39,439	15,681
2012 - 13	23,391	6,075	41,609	14,009
2013 - 14	18,611	5,208	46,389	12,194
2014 - 15	21,532	4,380	48,468	10,238
2015 - 16	22,062	3,468	47,938	8,220
2016 - 17	22,216	2,527	52,784	6,079
2017 - 18	26,175	1,498	53,825	3,814
2018 - 19	22,175	471	62,825	1,335
<u>Totals</u>	<u>192,689</u>	<u>38,334</u>	<u>572,311</u>	<u>91,645</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)At June 30, 2010

Below are minimum obligations for each individual issue:

<u>School Year</u>	KISTA November 2001		<u>School Year</u>	June 2004 Issue	
	<u>Remarketing Issue</u>			<u>KSFCC</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2010 - 11	60,000	3,780	2010 - 11	35,000	30,070
2011 - 12	<u>60,000</u>	<u>1,275</u>	2011 - 12	35,000	28,670
Totals	<u>120,000</u>	<u>5,055</u>	2012 - 13	40,000	27,270
			2013 - 14	40,000	25,670
			2014 - 15	40,000	24,070
School	January 2004 (KISTA)		2015 - 16	45,000	22,230
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	2016 - 17	45,000	20,160
2010 - 11	12,723	1,585	2017 - 18	45,000	18,090
2011 - 12	13,140	1,203	2018 - 19	50,000	16,020
2012 - 13	11,158	783	2019 - 20	50,000	13,720
2013 - 14	<u>11,523</u>	<u>403</u>	2020 - 21	55,000	11,270
			2021 - 22	55,000	8,575
			2022 - 23	60,000	5,880
Totals	<u>48,544</u>	<u>3,974</u>	2023 - 24	<u>60,000</u>	<u>2,940</u>
				<u>655,000</u>	<u>254,635</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)At June 30, 2010

Below are minimum obligations for each individual issue:

School Year	August 2005 Issue			
	<u>KSFCC</u>		<u>District</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010 - 11	29,576	21,405	95,424	195,527
2011 - 12	26,785	20,348	243,215	189,178
2012 - 13	22,203	19,430	252,797	179,878
2013 - 14	30,389	18,444	259,611	170,270
2014 - 15	31,041	17,292	268,959	160,359
2015 - 16	29,525	16,149	280,475	149,987
2016 - 17	33,500	14,943	291,500	139,047
2017 - 18	33,875	13,637	306,125	127,466
2018 - 19	32,242	12,340	307,758	115,418
2019 - 20	38,857	10,927	336,143	102,617
2020 - 21	38,454	9,380	351,546	88,863
2021 - 22	42,058	7,769	362,942	74,574
2022 - 23	42,342	6,081	382,658	59,662
2023 - 24	46,486	4,276	398,514	43,789
2024 - 25	43,886	2,385	411,114	26,840
2025 - 26	<u>34,168</u>	<u>725</u>	<u>425,832</u>	<u>9,049</u>
Totals	<u>555,387</u>	<u>195,531</u>	<u>4,974,613</u>	<u>1,832,524</u>
School Year	January 2006 (KISTA)		September 2006 (KISTA)	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010 - 11	13,026	2,952	19,952	5,486
2011 - 12	13,464	2,496	20,710	4,787
2012 - 13	13,901	2,024	21,530	4,037
2013 - 14	14,394	1,520	22,414	3,256
2014 - 15	12,314	980	23,298	2,444
2015 - 16	12,807	511	20,205	1,570
2016 - 17	<u>-</u>	<u>-</u>	<u>20,962</u>	<u>812</u>
Totals	<u>79,906</u>	<u>10,483</u>	<u>149,071</u>	<u>22,392</u>

BATH COUNTY SCHOOL DISTRICT

SCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)

At June 30, 2010

Below are minimum obligations for each individual issue:

School Year	May 2008 Issue				January 2008 Series	
	KSFCC		District		KSFCC	
	Principal	Interest	Principal	Interest	Principal	Interest
2010 - 11	251,305	214,756	73,695	88,262	25,000	26,245
2011 - 12	257,965	208,097	77,035	86,310	25,000	25,420
2012 - 13	265,318	200,745	79,682	84,115	30,000	24,595
2013 - 14	273,277	192,786	81,723	81,724	30,000	23,605
2014 - 15	281,748	184,314	88,252	79,190	30,000	22,495
2015 - 16	290,763	175,298	89,237	76,366	30,000	21,385
2016 - 17	300,359	165,702	94,641	73,422	30,000	20,275
2017 - 18	310,572	155,490	94,428	70,204	35,000	19,165
2018 - 19	321,442	144,620	98,558	66,899	35,000	17,870
2019 - 20	333,013	133,048	151,987	63,350	35,000	16,400
2020 - 21	345,001	121,060	154,999	57,879	40,000	14,930
2021 - 22	357,509	108,554	167,491	52,260	40,000	13,250
2022 - 23	370,735	95,326	169,265	46,064	40,000	11,570
2023 - 24	384,639	81,424	175,361	39,716	40,000	9,890
2024 - 25	399,256	66,806	185,744	33,052	45,000	8,170
2025 - 26	414,726	51,336	195,274	25,854	45,000	6,235
2026 - 27	430,900	35,161	224,100	18,239	50,000	4,300
2007 - 28	448,135	17,925	231,865	9,275	50,000	2,150
Totals	6,036,663	2,352,448	2,433,337	1,052,181	655,000	287,950
School Year	(KISTA) 2008 Series		School Year	(KISTA) 2009 Series		
	Principal	Interest		Principal	Interest	
2010 - 11	14,676	4,335	2010 - 11	13,122	3,369	
2011 - 12	15,094	3,876	2011 - 12	11,172	3,041	
2012 - 13	15,581	3,393	2012 - 13	11,438	2,762	
2013 - 14	16,067	2,879	2013 - 14	11,748	2,448	
2014 - 15	16,624	2,333	2014 - 15	12,147	2,095	
2015 - 16	17,250	1,751	2015 - 16	12,502	1,719	
2016 - 17	14,885	1,130	2016 - 17	12,901	1,306	
2017 - 18	15,441	579	2017 - 18	11,039	855	
			2018 - 19	11,438	446	
Totals	125,618	20,276	Totals	107,507	18,041	

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	* 10.553	7760005 09	N/A	64,964
	* 10.553	7760005 10	N/A	213,068
School Lunch Program	* 10.555	7750002 09	N/A	131,233
	* 10.555	7750002 10	N/A	368,817
Child and Adult Care Food Program	* 10.558	7790021 09	N/A	2,213
	* 10.558	7790021 10	N/A	3,085
	* 10.558	7800016 09	N/A	117
	* 10.558	7800016 10	N/A	140
Summer Food Service Program for Children	* 10.559	7690024 09	N/A	1,614
	* 10.559	7740023 09	N/A	17,175
Passed through State Department of Agriculture:				
Food Donation (non-cash assistance)	10.550	006-0100	N/A	63,616
Passed through Bath County Fiscal Court:				
Schools and Roads Grants to States	10.665	FUND 14700	N/A	<u>38,132</u>
<u>Total U.S. Department of Agriculture</u>				<u>904,174</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title I, Part A Cluster				
Title I	* 84.010	3100	776,649	535,375
	* 84.010	3109	670,227	198,371
Title I School Improvement	* 84.010	3208	87,956	68,166
Title I Professional Development	* 84.010	3100D	77,227	33,695
	* 84.010	3109D	8,796	262
Title I Parental Involvement	* 84.010	3100M	7,723	7,682
	* 84.010	3109M	6,157	5,246
Title I PD for District Improvement	* 84.010	3100T	17,050	9,136
	* 84.010	3109T	19,203	16,159
Title I American Recovery & Reinvestment Act	* 84.389A	3919	537,984	457,264
Professional Development	* 84.389A	3919D	151,665	117,564
Parental Involvement	* 84.389A	3919M	7,016	1,514
Tier III Set Aside	* 84.389A	3919T	4,911	4,474
<u>Total Title I, Part A Cluster</u>				<u>1,454,908</u>
Even Start Family Literacy	84.213	3230	110,000	105,999
	84.213	3239	100,000	<u>39,055</u>
				<u>145,054</u>
State Fiscal Stabilization Fund (SFSF) - Education State				
Grants, Recovery Act	* 84.394	17LO	848,417	<u>848,417</u>
- Special Education Cluster -				
IDEA - B Basic				
	* 84.027	3370	427,921	378,633
	* 84.027	3379	414,450	30,355
ARRA	* 84.391	4249	235,887	203,339
IDEA - B Preschool	* 84.173	3430	30,002	29,569
	* 84.173	3438	31,825	320
	* 84.173	3439	31,829	7,909
ARRA	* 84.392	4239	15,865	<u>15,376</u>
<u>Total Special Education Cluster</u>				<u>665,501</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
Vocational Education	84.048	3480	31,267	<u>31,267</u>
Title VI - Rural & Low Income	84.358	3500	52,149	<u>52,149</u>
Gear Up (Collaborative Teaching Grant)	84.334A	3790G	1,750	909
	84.334A	3799G	1,750	1,707
				<u>2,616</u>
Teacher Quality	84.367	4010	160,835	<u>160,835</u>
Title IV	84.186	4060	10,816	9,966
	84.186	4069	10,026	4,850
				<u>14,816</u>
Education Technology	84.318	4250	8,167	5,423
	84.318	4259	7,271	3,971
ARRA	84.386	4850	21,465	1,740
				<u>11,134</u>
Reading First	84.357A	5089R	72,111	58,258
	84.357A	5088R	175,989	54,919
				<u>113,177</u>
ARRA - Homeless Program	84.387A	3219	3,000	<u>1,774</u>
Passed through Workforce Cabinet:				
Adult Education	84.002	3730	41,363	41,363
Adult Education - Family Literacy	84.002	3739S	2,011	351
				<u>41,714</u>
<u>Total Department of Education</u>				<u>3,543,362</u>
<u>National Science Foundation</u>				
Passed through State Department of Education:				
Appalachian Math and Science	47.076	4219A	20,000	<u>7,311</u>
<u>Appalachian Regional Commission</u>				
Passed through State Department of Education:				
Appalachian Higher Education Network	23.011	6880	5,000	1,567
Appalachian Higher Education Network	23.011	6887	5,000	1,560
Total Appalachian Regional Commission				<u>3,127</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>Corporation for National & Community Service</u>				
Passed through State Department of Education:				
Service Learning Project	94.004	6750	3,860	810
	94.004	6759	4,800	1,053
<u>Total Corporation for National & Community Service</u>				<u>1,863</u>
<u>Total Federal Awards Expended</u>				<u><u>4,459,837</u></u>

* - Indicates major programs

NOTE A

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

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Chris Gooch

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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*

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bath County School District as of and for the year ended June 30, 2010 which collectively comprise the Bath County School District's basic financial statements and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget 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 Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bath County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bath County School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bath County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of Bath County School District, in a separate letter dated October 29, 2010. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

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

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 29, 2010

Chris Gooch

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Bath County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bath County School District's management. Our responsibility is to express an opinion on Bath County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Report. 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. Our audit does not provide a legal determination on Bath County School District's compliance with those requirements.

In our opinion, Bath County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Bath County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bath County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of and use of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Bath County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 29, 2010

BATH COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2010

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2010- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. No significant deficiency in internal control was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No significant deficiency in internal control was disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit disclosed no audit findings which we were required to report under Section .510(a) of A-133.
7. Bath County School District had the following major programs:

U. S. Department of Education:

Passed through State Department of Education

Title I, Part A Cluster - CFDA numbers 84.010 & 84.389A

Special Education Cluster – CFDA numbers 84.027,

84.173, 84.391 & 84.392

State Fiscal Stabilization Fund (SFSF) - Educational State

Grants, Recovery Acts – CFDA number 84.394

U.S. Department of Agriculture:

Passed through State Department of Education

-Child Nutrition Cluster -

School Breakfast and Lunch Programs, Child and Adult

Care Food Program & Summer Food Service Program

for Children – CFDA numbers 10.553, 10.555, 10.558 &

10.559.

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
 9. The auditee qualified as a low-risk auditee.
- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –
None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –
None

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Bath County Board of Education
and Management
Owingsville, Kentucky

In planning and performing our audit of the financial statements of Bath County School District for the year ended June 30, 2010, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 29, 2010, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 29, 2010 on the financial statements of the Bath County Board School District.

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

Respectfully,



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 29, 2010

BATH COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2010**Review of Prior Year Comments**

1. Management should ensure consistency related to the District's ceiling for allowable meal expense whether a reimbursement transaction or a District credit card transaction. The District response was to enhance monitoring procedures. Our current year test sample selected revealed no inconsistencies in the manner of disbursement transactions related to District meal expenses.
2. We noted fundraising forms and inventory reports were either incomplete or missing for samples selected at Bath County Middle School. We noted this as a current management letter comment also.

Current Year Comments

1. We noted in our walk-through and reconciliation of fixed asset inventory assets not included on the District's fixed asset accounting system. Management should provide documentation that District personnel are performing periodic walkthroughs throughout the year and comparing to underlying District accounting and insurance records.
2. The District should ensure that non-exempt personnel have a completed I-9 form on file. The District should ensure personnel authorizations for payroll deductions are on file for each employee.
3. We noted several clerical errors regarding Bath County Middle School activity fund inventory accounting for pen and pencil sales. A five-month inventory report was prepared for the pen and pencil sales. No fundraising form was completed for a cheerleading candle sale fundraiser. A fundraising form for a band fundraiser was incomplete.
4. On a district-wide basis, personnel should be alert for instances a signed student listing should be implemented when accounting for tangible property purchased and distributed as student incentives.
5. Charitable gaming activity at the activity fund level should account for and control sales through use of pre-numbered tickets.