

BATH COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

For the Year Ended June 30, 2007

BATH COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2007

	<u>Pages</u>
Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 8
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10 - 11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds.....	20
Statement of Fiduciary Net Assets – Activity Funds.....	21

BATH COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2007

	<u>Pages</u>
Notes to the Basic Financial Statements	22 - 41
Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	43
Statement of Revenues, Expenditures and Changes in Fund Balance – Bath County High School Activity Fund	44 - 45
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Middle and Elementary School Activity Funds	46
Schedule of Individual Debt Service Requirements	47 - 50
Schedule of Expenditures of Federal Awards	51 - 52
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53 - 54
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	55 - 56
Summary Schedule of Prior Audit Findings	57
Schedule of Findings and Questioned Costs	58 - 62
Management Letter	63 - 66

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

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, 2007, 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 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 – Electronic Submission. 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, 2007, 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 11, 2007, 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 the internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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.

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

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 11, 2007

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2007

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, 2007. 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 \$5,256,977. The ending cash balance, including activity funds, for the District was \$4,291,740.
- The Board of Education continued addition/renovation projects at various school locations. Construction in progress through June 30, 2007 was \$6,243,338. Funds are derived from SFCC and local bond revenue sales and from SFCC and General Fund cash reserves.
- The District participated in the KISTA New Market Tax Credit Program, allowing for the acquisition of computer equipment. The total cost for the District is \$335,258.
- The District participated in the Kentucky Interlocal School Transportation Association (KISTA) bond pool in the fiscal year ended for the purpose of acquiring three bus units. The total bond principal was \$208,738.
- Investment earnings including proceeds from the CC Chenault General Trust Fund totaled \$453,199 for the year ended June 30, 2007 and \$545,352 for the year ended June 30, 2006.
- The District principal payments on long-term debt was \$777,381.
- Total general fund revenue was \$12,694,355 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding general fund transfers, there were \$12,045,712 in general fund expenditures. These totals reflect on-behalf state payments in the amount of \$2,261,858.

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, 2007

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, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2007, assets exceeded liabilities by \$7,041,027.

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, 2007 and 2006

Following are comparisons of net assets:

	At June 30,	
	<u>2007</u>	<u>2006</u>
Current Assets	4,737,000	6,001,025
Noncurrent Assets	<u>13,260,243</u>	<u>11,708,424</u>
<u>Total Assets</u>	<u>17,997,243</u>	<u>17,709,449</u>
Current Liabilities	1,846,003	2,113,185
Noncurrent Liabilities	<u>9,110,213</u>	<u>9,484,378</u>
<u>Total Liabilities</u>	<u>10,956,216</u>	<u>11,597,563</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	2,884,038	989,569
Restricted	354,667	972,626
Unreserved Fund Balance	<u>3,802,322</u>	<u>3,935,936</u>
<u>Total Net Assets</u>	<u>7,041,027</u>	<u>5,898,131</u>

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

- The decrease in current assets is primarily due to a decrease in capital project funds cash.
- Increase in noncurrent assets reflects net increase for three new school vehicle acquisitions and construction in progress for school renovations totaling \$1,557,805.
- Decrease in noncurrent liabilities reflect a decrease in bond principal payments of \$777,381 and a decrease in capital lease payments of \$33,525.

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, 2007:

	<u>Budget 2007</u>	<u>Actual 2007</u>	<u>Variance I (D)</u>
Revenues:			
Local revenue sources	1,547,500	1,901,342	353,842
State revenue sources	8,010,180	10,380,392	2,370,212
Federal revenue	25,000	64,819	39,819
Other sources	<u>335,758</u>	<u>347,802</u>	<u>12,044</u>
<u>Total revenues</u>	<u>9,918,438</u>	<u>12,694,355</u>	<u>2,775,917</u>
Expenses:			
Instruction	6,174,322	7,291,526	1,117,204
Student support services	376,165	390,328	14,163
Instructional support	548,557	589,319	40,762
District administration	1,534,741	600,536	(934,205)
School administration	565,647	657,752	92,105
Business support services	228,279	202,228	(26,051)
Plant operations and management	1,570,934	1,412,769	(158,165)
Student transportation	929,140	888,545	(40,595)
Enterprise operations	11,466	12,709	1,243
Contingencies	<u>443,720</u>	<u>-</u>	<u>(443,720)</u>
<u>Total expenses</u>	<u>12,382,971</u>	<u>12,045,712</u>	<u>(337,259)</u>
<u>Excess (Deficiency) of Revenue over Expenses</u>	<u>(2,464,533)</u>	<u>648,643</u>	<u>3,113,176</u>

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

- 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 \$2,261,858.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2007 and 2006:

	<u>For Year Ended June 30,</u> <u>2007</u>	<u>2006</u>
Revenues:		
Local revenue sources	3,086,160	2,744,349
State revenue sources	12,317,904	11,739,166
Federal revenue	<u>2,593,252</u>	<u>2,801,415</u>
<u>Total revenues</u>	<u>17,997,316</u>	<u>17,284,930</u>
Expenses:		
Instruction	9,750,224	9,313,251
Student support services	557,728	537,673
Instructional support	953,528	675,867
District administration	627,439	402,042
School administration	666,199	660,065
Business support services	220,868	220,649
Plant operations and management	1,460,553	1,253,380
Student transportation	1,050,810	1,104,958
Food services operation	953,063	1,042,746
Enterprise operation	13,605	11,016
Child care services	153,479	152,808
Community services	269,364	268,801
Interest on long-term debt	<u>380,776</u>	<u>491,962</u>
<u>Total expenses</u>	<u>17,057,636</u>	<u>16,135,218</u>
<u>Change in net assets</u>	<u>939,680</u>	<u>1,149,712</u>

- Increase in change in net assets reflect increase in SEEK funding, and state on-behalf payments.
- Instructional and other expenses reflect cost of living wage increases for classified and certified personnel.

BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

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 \$443,720 in contingency (3.58%).

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 years 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, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	3,919,719	218,407	4,138,126
Accounts receivable:			
Taxes - current	65,444	-	65,444
Taxes - delinquent	12,616	-	12,616
Other	62,849	190	63,039
Intergovernmental - State	3,815	21,674	25,489
Intergovernmental - indirect Federal	426,506	-	426,506
Inventories	-	5,780	5,780
<u>Total current assets</u>	<u>4,490,949</u>	<u>246,051</u>	<u>4,737,000</u>
- Noncurrent Assets -			
Capital assets	20,484,809	262,158	20,746,967
Less: accumulated depreciation	<u>(7,284,150)</u>	<u>(202,574)</u>	<u>(7,486,724)</u>
<u>Total noncurrent assets</u>	<u>13,200,659</u>	<u>59,584</u>	<u>13,260,243</u>
<u>Total assets</u>	<u>17,691,608</u>	<u>305,635</u>	<u>17,997,243</u>
Liabilities:			
- Current liabilities -			
Cash deficit balance	165,040	-	165,040
Accounts payable	77,350	584	77,934
Current portion of accumulated sick leave	39,463	-	39,463
Deferred revenues	297,574	-	297,574
Current portion of bond/lease obligations	884,635	-	884,635
Interest payable	<u>381,357</u>	<u>-</u>	<u>381,357</u>
Total current liabilities	<u>1,845,419</u>	<u>584</u>	<u>1,846,003</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	<u>9,110,213</u>	<u>-</u>	<u>9,110,213</u>
Total noncurrent liabilities	<u>9,110,213</u>	<u>-</u>	<u>9,110,213</u>
Total liabilities	<u>10,955,632</u>	<u>584</u>	<u>10,956,216</u>
Net assets:			
Invested in capital assets, net of related debt	2,824,454	59,584	2,884,038
Restricted for:			
Other	312,988	5,780	318,768
Sick leave	35,899	-	35,899
Unrestricted	<u>3,562,635</u>	<u>239,687</u>	<u>3,802,322</u>
Total net assets	<u>6,735,976</u>	<u>305,051</u>	<u>7,041,027</u>
Total liabilities and net assets	<u>17,691,608</u>	<u>305,635</u>	<u>17,997,243</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2007

	<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	9,750,224	-	3,750,319	-
Support services:				
Student	557,728	-	198,209	-
Instructional staff	953,528	-	397,891	-
District administration	627,439	-	44,229	-
School administration	666,199	-	102,986	-
Business support	220,868	-	48,876	-
Plant operation & maintenance	1,460,553	-	119,954	-
Student transportation	1,050,810	-	138,064	-
Enterprise operations	13,605	-	896	-
Community services activities	269,364	-	267,701	-
Interest on long-term debt	380,776	-	-	-
	<u>15,951,094</u>	<u>-</u>	<u>5,069,125</u>	<u>-</u>
<u>Total governmental activities</u>				
- Business-type Activities -				
Food service	956,063	262,361	779,247	-
Child care	153,479	154,818	-	-
	<u>1,109,542</u>	<u>417,179</u>	<u>779,247</u>	<u>-</u>
<u>Total business-type activities</u>				
	<u>17,060,636</u>	<u>417,179</u>	<u>5,848,372</u>	<u>-</u>
<u>Total primary government</u>				

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2007

	Net (Expense) Revenue and Changes in Net Assets		
	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
	(5,999,905)	-	(5,999,905)
	(359,519)	-	(359,519)
	(555,637)	-	(555,637)
	(583,210)	-	(583,210)
	(563,213)	-	(563,213)
	(171,992)	-	(171,992)
	(1,340,599)	-	(1,340,599)
	(912,746)	-	(912,746)
	(12,709)	-	(12,709)
	(1,663)	-	(1,663)
	<u>(380,776)</u>	<u>-</u>	<u>(380,776)</u>
	<u>(10,881,969)</u>	<u>-</u>	<u>(10,881,969)</u>
	-	85,545	85,545
	<u>-</u>	<u>1,339</u>	<u>1,339</u>
	<u>-</u>	<u>86,884</u>	<u>86,884</u>
	<u>(10,881,969)</u>	<u>86,884</u>	<u>(10,795,085)</u>
General revenues:			
Taxes	1,784,466	-	1,784,466
Investment earnings	441,248	11,951	453,199
State and formula grants	9,062,784	-	9,062,784
Miscellaneous	<u>431,316</u>	<u>-</u>	<u>431,316</u>
<u>Total general revenues</u>	<u>11,719,814</u>	<u>11,951</u>	<u>11,731,765</u>
Change in net assets	837,845	98,835	936,680
Net assets - beginning of year	<u>5,898,131</u>	<u>206,216</u>	<u>6,104,347</u>
Net assets - end of year	<u><u>6,735,976</u></u>	<u><u>305,051</u></u>	<u><u>7,041,027</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2007

	General Fund	Special Revenue Fund	Other Gov't Funds	Total Gov't Funds
Assets and resources:				
Cash and cash equivalents	3,173,877	-	745,842	3,919,719
Accounts receivable:				
Taxes - current	65,444	-	-	65,444
Taxes - delinquent	12,616	-	-	12,616
Other	14,327	48,522	-	62,849
Intergovernmental - State	3,500	315	-	3,815
Intergovernmental - Indirect Federal	<u>7,342</u>	<u>419,164</u>	<u>-</u>	<u>426,506</u>
<u>Total assets and resources</u>	<u>3,277,106</u>	<u>468,001</u>	<u>745,842</u>	<u>4,490,949</u>
Liabilities and fund balances:				
Accounts payable	69,463	5,387	2,500	77,350
Cash deficit	-	165,040	-	165,040
Current portion of accumulated sick leave	39,463	-	-	39,463
Deferred revenue	<u>-</u>	<u>297,574</u>	<u>-</u>	<u>297,574</u>
<u>Total liabilities</u>	<u>108,926</u>	<u>468,001</u>	<u>2,500</u>	<u>579,427</u>
Fund balance				
Reserved for sick leave	35,899	-	-	35,899
Reserved for SFCC escrow/construction	-	-	312,988	312,988
Undesignated fund balance	<u>3,132,281</u>	<u>-</u>	<u>430,354</u>	<u>3,562,635</u>
<u>Total fund balances</u>	<u>3,168,180</u>	<u>-</u>	<u>743,342</u>	<u>3,911,522</u>
<u>Total liabilities and fund balances</u>	<u>3,277,106</u>	<u>468,001</u>	<u>745,842</u>	<u>4,490,949</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2007

Total fund balance per fund financial statements	3,911,522
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.	13,200,659
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>(10,376,205)</u>
Net assets for governmental activities	<u>6,735,976</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, 2007

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Govt Funds</u>	<u>Total Govt Funds</u>
Revenues:				
From local sources:				
Taxes	1,586,755	-	197,711	1,784,466
Earnings on investments	252,850	188,398	-	441,248
Other local revenue	61,737	24,156	-	85,893
Intergovernmental - state	10,380,392	863,648	1,037,260	12,281,300
Intergovernmental - indirect federal	64,819	1,785,790	-	1,850,609
Other revenue	347,802	-	-	347,802
	<u>12,694,355</u>	<u>2,861,992</u>	<u>1,234,971</u>	<u>16,791,318</u>
Expenditures:				
Instructional	7,291,526	1,953,326	-	9,244,852
Student support services	390,328	149,842	-	540,170
Staff support services	589,319	356,450	-	945,769
District administration	600,536	2,085	-	602,621
School administration	657,752	677	-	658,429
Business support services	202,228	18,302	-	220,530
Plant operations and management	1,412,769	37,095	-	1,449,864
Student transportation	888,545	40,313	-	928,858
Enterprise operations	12,709	896	-	13,605
Community service activities	-	267,701	-	267,701
Facilities acquisition and construction	-	-	1,707,515	1,707,515
Debt service:				
Principal	-	-	810,907	810,907
Interest	-	-	397,537	397,537
	<u>12,045,712</u>	<u>2,826,687</u>	<u>2,915,959</u>	<u>17,788,358</u>
Excess (deficit) of revenues over expenditures	<u>648,643</u>	<u>35,305</u>	<u>(1,680,988)</u>	<u>(997,040)</u>
Other financing sources (uses):				
Operating transfers in	-	26,775	726,847	753,622
Operating transfers out	(120,895)	(62,080)	(570,647)	(753,622)
	<u>(120,895)</u>	<u>(35,305)</u>	<u>156,200</u>	<u>-</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	527,748	-	(1,524,788)	(997,040)
Fund balance - July 1, 2006	<u>2,640,432</u>	<u>-</u>	<u>2,268,130</u>	<u>4,908,562</u>
Fund balance - June 30, 2007	<u>3,168,180</u>	<u>-</u>	<u>743,342</u>	<u>3,911,522</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, 2007

Net change in total fund balances per fund financial statements	(997,040)
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.	1,007,217
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>827,668</u>
Change in net assets of governmental activities	<u><u>837,845</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUNDFor the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues:				
From local sources:				
Taxes	1,290,000	1,345,000	1,586,755	241,755
Earnings on investments	160,000	200,000	252,850	52,850
Other local revenue	3,000	2,500	61,737	59,237
Intergovernmental - state	7,838,750	8,010,180	10,380,392	2,370,212
Intergovernmental - indirect federal	15,000	25,000	64,819	39,819
Other revenue	500	335,758	347,802	12,044
	<u>9,307,250</u>	<u>9,918,438</u>	<u>12,694,355</u>	<u>2,775,917</u>
Expenditures:				
Instructional	5,674,881	6,174,322	7,291,526	(1,117,204)
Student support services	450,516	376,165	390,328	(14,163)
Staff support services	258,107	548,557	589,319	(40,762)
District administration	892,815	1,534,741	600,536	934,205
School administration	558,338	565,647	657,752	(92,105)
Business support services	178,623	228,279	202,228	26,051
Plant operations and management	1,525,202	1,570,934	1,412,769	158,165
Student transportation	896,779	929,140	888,545	40,595
Enterprise operations	9,400	11,466	12,709	(1,243)
Contingency	297,589	443,720	-	443,720
	<u>10,742,250</u>	<u>12,382,971</u>	<u>12,045,712</u>	<u>337,259</u>
Excess (deficit) of revenues over expenditures	<u>(1,435,000)</u>	<u>(2,464,533)</u>	<u>648,643</u>	<u>(3,113,176)</u>
Other financing sources (uses):				
Operating transfers in		-	-	-
Operating transfers out	(165,000)	(140,000)	(120,895)	19,105
	<u>(165,000)</u>	<u>(140,000)</u>	<u>(120,895)</u>	<u>19,105</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,600,000)</u>	<u>(2,604,533)</u>	<u>527,748</u>	<u>3,132,281</u>
Fund balance - July 1, 2006	<u>1,600,000</u>	<u>2,604,533</u>	<u>2,640,432</u>	<u>35,899</u>
Fund balance - June 30, 2007	<u>-</u>	<u>-</u>	<u>3,168,180</u>	<u>3,168,180</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Earnings on investments	189,200	189,200	188,398	(802)
Other local revenue	4,100	10,030	24,156	14,126
Intergovernmental - state	629,428	994,822	863,648	(131,174)
Intergovernmental - indirect federal	889,419	1,776,934	1,785,790	8,856
<u>Total revenues</u>	<u>1,712,147</u>	<u>2,970,986</u>	<u>2,861,992</u>	<u>(108,994)</u>
Expenditures:				
Instructional	856,654	1,930,338	1,953,326	(22,988)
Student support services	144,193	131,338	149,842	(18,504)
Staff support services	434,563	544,755	356,450	188,305
District administration	-	-	2,085	(2,085)
School administration	-	-	677	(677)
Business support services	15,847	10,409	18,302	(7,893)
Plant operations and management	50,469	49,332	37,095	12,237
Student transportation	24,481	32,666	40,313	(7,647)
Enterprise operations	-	-	896	(896)
Community service activities	189,846	264,820	267,701	(2,881)
<u>Total expenditures</u>	<u>1,716,053</u>	<u>2,963,658</u>	<u>2,826,687</u>	<u>136,971</u>
Excess (deficit) of revenues over expenditures	<u>(3,906)</u>	<u>7,328</u>	<u>35,305</u>	<u>(27,977)</u>
Other financing sources (uses):				
Operating transfers in	65,986	54,752	26,775	(27,977)
Operating transfers out	<u>(62,080)</u>	<u>(62,080)</u>	<u>(62,080)</u>	<u>-</u>
<u>Total other financing sources (uses)</u>	<u>3,906</u>	<u>(7,328)</u>	<u>(35,305)</u>	<u>(27,977)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	-	-	-
Fund balance - July 1, 2006	-	-	-	-
Fund balance - June 30, 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDSAt June 30, 2007

	<u>Food Service Fund</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	190,296	28,111	218,407
Accounts receivable:			
Other	190	-	190
Intergovernmental - State	18,085	3,589	21,674
Inventories	<u>5,780</u>	<u>-</u>	<u>5,780</u>
<u>Total current assets</u>	<u>214,351</u>	<u>31,700</u>	<u>246,051</u>
- Noncurrent Assets -			
Capital assets	262,158	-	262,158
Less: accumulated depreciation	<u>(202,574)</u>	<u>-</u>	<u>(202,574)</u>
<u>Total noncurrent assets</u>	<u>59,584</u>	<u>-</u>	<u>59,584</u>
<u>Total assets</u>	<u>273,935</u>	<u>31,700</u>	<u>305,635</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	<u>564</u>	<u>20</u>	<u>584</u>
<u>Total current liabilities</u>	<u>564</u>	<u>20</u>	<u>584</u>
Net assets:			
Investments in capital assets	59,584	-	59,584
Reserved for inventories	5,780	-	5,780
Unreserved	<u>208,007</u>	<u>31,680</u>	<u>239,687</u>
<u>Total net assets</u>	<u>273,371</u>	<u>31,680</u>	<u>305,051</u>
<u>Total liabilities and net assets</u>	<u>273,935</u>	<u>31,700</u>	<u>305,635</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDSFor the Year Ended June 30, 2007

	<u>Food service Fund</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	197,047	-	197,047
Tuition from individuals	-	113,664	113,664
Revenues from local sources	280	-	280
Revenues from state sources	<u>65,034</u>	<u>41,154</u>	<u>106,188</u>
<u>Total operating revenues</u>	<u>262,361</u>	<u>154,818</u>	<u>417,179</u>
Operating expense:			
Salaries and wages	459,135	137,527	596,662
Contract services	13,564	272	13,836
Materials and supplies	468,500	15,092	483,592
Depreciation	14,598	-	14,598
Other operating expenses	<u>266</u>	<u>588</u>	<u>854</u>
<u>Total operating expenses</u>	<u>956,063</u>	<u>153,479</u>	<u>1,109,542</u>
<u>Operating income (loss)</u>	<u>(693,702)</u>	<u>1,339</u>	<u>(692,363)</u>
Nonoperating Revenue/(Expense):			
Federal grants	764,283	-	764,283
State grants	14,964	-	14,964
Interest income	<u>11,951</u>	<u>-</u>	<u>11,951</u>
<u>Total nonoperating revenue/(expense)</u>	<u>791,198</u>	<u>-</u>	<u>791,198</u>
<u>Net income (loss)</u>	97,496	1,339	98,835
Net assets, July 1, 2006	<u>175,875</u>	<u>30,341</u>	<u>206,216</u>
Net assets, June 30, 2007	<u><u>273,371</u></u>	<u><u>31,680</u></u>	<u><u>305,051</u></u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Food service Fund	Other Proprietary Funds	Total
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	197,285	-	197,285
Tuition from individuals	-	137,849	137,849
Cash paid to/for:			
Employees	(394,101)	(118,106)	(512,207)
Supplies/Contractual	(488,588)	(15,795)	(504,383)
Other activities	(266)	(588)	(854)
	<u>(685,670)</u>	<u>3,360</u>	<u>(682,310)</u>
<u>Net cash provided by operating activities</u>			
	<u>(685,670)</u>	<u>3,360</u>	<u>(682,310)</u>
Cash flows from capital and related financing activities:			
Purchases/disposal of equipment	(15,204)	-	(15,204)
	<u>(15,204)</u>	<u>-</u>	<u>(15,204)</u>
Cash flows from investing activities:			
Interest income	11,951	-	11,951
	<u>11,951</u>	<u>-</u>	<u>11,951</u>
Cash flows from financing activities:			
Federal grants	762,736	-	762,736
State grants	14,964	-	14,964
	<u>777,700</u>	<u>-</u>	<u>777,700</u>
<u>Net cash provided by financing activities</u>			
	<u>777,700</u>	<u>-</u>	<u>777,700</u>
Net increase (decrease) in cash	88,777	3,360	92,137
Cash, beginning of year	104,399	24,751	129,150
	<u>104,399</u>	<u>24,751</u>	<u>129,150</u>
Cash, end of year	193,176	28,111	221,287
	<u>193,176</u>	<u>28,111</u>	<u>221,287</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(693,702)	1,339	(692,363)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	14,598	-	14,598
Changes in current assets/liabilities			
Receivables	(42)	2,452	2,410
Accounts payable	(6,524)	(431)	(6,955)
	<u>(6,524)</u>	<u>(431)</u>	<u>(6,955)</u>
Net cash (used) by operating activities	<u>(685,670)</u>	<u>3,360</u>	<u>(682,310)</u>

Noncash transactions include onbehalf payments of \$65,034 for the School Food Service Program and \$19,421 for the Child Care Program.

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2007

Assets:	
Cash and cash equivalents	153,614
Accounts receivable	<u>230</u>
<u>Total assets</u>	<u>153,844</u>
Liabilities:	
Accounts payable	1,521
Due to individual student activity account funds	<u>152,323</u>
<u>Total liabilities</u>	<u>153,844</u>
Net assets:	
Unreserved	<u>-</u>
<u>Total liabilities and net assets</u>	<u>153,844</u>

See notes to financial statements.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2007NOTE 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, 2007NOTE 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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- (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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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.

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 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,

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

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, 2007, to finance the General Fund operations were \$.358 per \$100 valuation for real property, \$.358 per \$100 valuation for business personal property and \$.400 per \$100 valuation for motor vehicles.

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

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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

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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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, 2007.

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.

Inventories

Supplies and materials are charged to expenditures when purchased.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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.

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.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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 \$5,513,643. Of the total cash balance, \$107,052 was covered by Federal depository insurance, the balance was covered by 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.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- Category 1 Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE C – CASH AND CASH EQUIVALENTS (continued)

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1.

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, 2007 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Central Bancshares, Inc.		
Checking Account	5,491,581	4,105,155
Certificate of Deposit	15,010	15,010
The Citizens Bank		
Checking Account	<u>7,052</u>	<u>6,535</u>
<u>Total</u>	<u>5,513,643</u>	<u>4,126,700</u>

Composition per financial statements:

Governmental funds	3,754,679
Proprietary funds	218,407
Agency funds	<u>153,614</u>
	<u>4,126,700</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE 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%
1997	2,785,000	3.90% - 4.70%
1998	2,195,000	4.00% - 4.25%
2001	515,000	2.60% - 4.25%
2003	238,074	2.00% - 3.90%
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%
2006	5,665,000	3.00% - 4.25%
2006	208,738	3.50% - 3.875%

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, 2007, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2007 - 08	430,044	387,539	289,733	91,624	1,198,940
2008 - 09	458,628	266,475	269,044	78,948	1,073,095

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

<u>Year</u>			<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2009 - 10	473,526	179,986	249,741	69,334	972,587
2010 - 11	405,417	90,542	232,068	63,750	791,777
2011 - 12	411,600	92,346	216,336	59,990	780,272
2012 - 13	363,502	100,594	201,609	56,195	721,900
2013 - 14	354,331	104,000	187,643	51,887	697,861
2014 - 15	353,039	107,573	174,021	47,452	682,085
2015 - 16	361,425	111,587	160,288	42,702	676,002
2016 - 17	365,246	100,716	145,938	37,630	649,530
2017 - 18	359,950	105,050	131,280	33,225	629,505
2018 - 19	370,583	104,417	116,753	28,831	620,584
2019 - 20	336,143	88,857	102,617	24,647	552,264
2020 - 21	351,546	93,454	88,863	20,650	554,513
2021 - 22	362,942	97,058	74,574	16,344	550,918
2022 - 23	382,658	102,342	59,662	11,961	556,623
2023 - 24	398,514	106,486	43,789	7,216	556,005
2024 - 25	411,114	43,886	26,840	2,385	484,225
2025 - 26	425,832	34,168	9,049	725	469,774
<u>Totals</u>	<u>7,376,040</u>	<u>2,317,076</u>	<u>2,779,848</u>	<u>745,496</u>	<u>13,218,460</u>

Following are changes in long-term debt:

	<u>Balance,</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>June 30, 2007</u>
September 1996 Issue	120,000	-	(10,000)	110,000
December 1997 Issue	1,175,000	-	(265,000)	910,000
September 1998 Issue	1,405,000	-	(150,000)	1,255,000
KISTA November 2001	330,000	-	(50,000)	280,000
February 2003 Series	390,000	-	(190,000)	200,000
April 2003 KISTA Series	163,176	-	(22,507)	140,669
June 2004 Series	785,000	-	(30,000)	755,000
January 2004 KISTA Series	96,410	-	(11,575)	84,835
August 2005 Series	5,665,000	-	(35,000)	5,630,000
January 2006 KISTA Series	132,173	-	(13,299)	118,874
September 2006 KISTA Series	-	208,738	-	208,738
	<u>10,261,759</u>	<u>208,738</u>	<u>(777,381)</u>	<u>9,693,116</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE 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>
2007-08	67,052
2008-09	67,052
2009-10	67,051
2010-11	67,051
2011-12	<u>33,526</u>
Total	<u>301,732</u>

Changes in capital lease obligations are as follows:

<u>Balance,</u>			<u>Balance,</u>
<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
<u>-</u>	<u>335,258</u>	<u>(33,526)</u>	<u>301,732</u>

The District participated in the Kentucky Interlocal School Transportation Association (KISTA) bond pool in the fiscal year ended for the purpose of acquiring three bus units. The total bond principal was \$208,738.

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

BATH COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE E – CAPITAL ASSETS (continued)

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2007</u>
<u>Governmental Activities</u>				
Land	283,317	-	-	283,317
Land improvements	908,665	-	-	908,665
Buildings and improvements	9,390,678	-	-	9,390,678
Technology equipment	1,014,801	183,613	100,770	1,097,644
Vehicles	2,362,609	-	386,830	1,975,779
General equipment	431,111	154,277	-	585,388
Construction in progress	4,535,823	1,707,515	-	6,243,338
<u>Totals at historical cost</u>	<u>18,927,004</u>	<u>2,045,405</u>	<u>487,600</u>	<u>20,484,809</u>
Less: accumulated depreciation				
Land and improvements	595,373	-	33,925	629,298
Buildings and improvements	3,973,659	-	201,904	4,175,563
Vehicles	1,721,827	(386,830)	120,064	1,455,061
Technology equipment	724,565	(103,149)	106,132	727,548
General equipment	262,134	-	34,546	296,680
<u>Total accumulated depreciation</u>	<u>7,277,558</u>	<u>(489,979)</u>	<u>496,571</u>	<u>7,284,150</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>11,649,446</u>	<u>2,535,384</u>	<u>(8,971)</u>	<u>13,200,659</u>
	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2007</u>
<u>Business-Type Activities</u>				
Food service and equipment	241,417	15,204	-	256,621
Technology equipment	8,335	-	(2,798)	5,537
<u>Totals at historical cost</u>	<u>249,752</u>	<u>15,204</u>	<u>(2,798)</u>	<u>262,158</u>
Less: accumulated depreciation				
Food service and equipment	183,535	-	14,290	197,825
Technology equipment	7,239	(2,798)	308	4,749
<u>Total accumulated depreciation</u>	<u>190,774</u>	<u>(2,798)</u>	<u>14,598</u>	<u>202,574</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>58,978</u>	<u>18,002</u>	<u>(17,396)</u>	<u>59,584</u>

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instructional	304,024
Student support service	17,558
Instructional staff support	7,759
District administration	24,818
School administration	7,770
Business support services	338
Plant operations and management	10,689
Student transportation	121,952
Community service activities	<u>1,663</u>
 Total Depreciation Expense	
- Governmental Functions	<u>496,571</u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2007, as follows:

Year ending June 30:	
2008	73,859
2009	60,364
2010	60,364
2011	<u>-</u>
 Total Minimum Rentals	<u>194,587</u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Plan Description – The Bath County Public Schools 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 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).

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE G – RETIREMENT PLANS (continued)

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.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. 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).

The Bath County Public School District's total payroll for the year was \$9,481,366. The payroll for employees covered under KTRS was \$7,005,383. For the year ended June 30, 2007, the Commonwealth contributed \$823,472 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2007 were \$94,583, which represents those employees covered by federal programs. Employees contributions for KTRS were \$690,380.

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% and a district contribution of 13.19% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,369,036.

The contribution requirement for CERS for the year ended June 30, 2007 was \$430,925 which consisted of \$312,476 from the District and \$118,450 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>
2007	94,583	823,472	312,476
2006	85,538	803,677	253,011
2005	73,430	758,901	188,100

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE G – RETIREMENT PLANS (continued)

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

	KTRS <u>as of June 30, 2006</u> (in millions of dollars)	CERS <u>as of June 30, 2006</u> (in millions of dollars)
Actuarial accrued liabilities	20,324.7	8,199.7
Actuarial value of assets	<u>14,857.6</u>	<u>6,678.0</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>5,467.1</u>	<u>1,521.7</u>

the dates indicated:

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, 2006 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

In June 2007, the board authorized the \$267,409 C.C. Chenault Building renovation project. The \$4,070,164 Bath County High School renovations and additions project was generally complete at June 30, 2007. A BG-1 signed July 25, 2007 by District officials reflected a proposed plan for elementary school construction at an estimated cost of \$10,406,924. The most significant portion of the cost is to be financed by state and local bond proceeds. The Bath County Middle School and Owingsville Elementary School renovation projects were generally complete at June 30, 2007. Total budgeted costs at June 30, 2007 were \$2,371,179 and \$986,775, respectively.

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE 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.

NOTE 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, 2007:

None

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE M – DEFICIT OPERATING/FUND BALANCES (continued)

The following funds had expenditures in excess of revenues at June 30, 2007:

Bath County High School Activity Fund	11,146
Bethel Elementary	2,650
Salt Lick Elementary	1,580

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>
FSPK	Debt Service	Bond principal and interest	570,647
Special Revenue	Debt Service	Bond principal and interest	62,080
General Fund	Debt Service	Bond principal and interest	94,120
General Fund	Special Revenue	KETS Grant Match	<u>26,775</u>
		<u>Total</u>	<u>753,622</u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2007 were \$-0-.

NOTE Q – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2007, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

BATH COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE Q – ANNUAL FINANCIAL REPORT DIFFERENCES (Continued)

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>
Fund Balance/Retained Earnings as reported to the Department of Education	3,239,451	-	743,342	228,082
Adjustment to Fund Balance/Retained Earnings				
(1) To reclassify erroneous posting	(40,665)	-	-	(7,180)
(2) To record additional accounts receivable	1,501	-	-	21,750
(4) To record additional accounts payable	(32,107)	-	-	(65)
(5) To adjust food service inventory	-	-	-	2,880
(6) To record net fixed assets - food service	-	-	-	<u>59,584</u>
Fund Balance/Retained Earnings per fund financial statements at June 30, 2007	<u>3,168,180</u>	<u>-</u>	<u>743,342</u>	<u>305,051</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, 2007:

Kentucky Teacher's Retirement System	823,472
Health & Life Insurance	<u>1,503,420</u>
Total	<u>2,326,892</u>

BATH COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2007

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Asset and resources:					
Cash and cash equivalents	<u>431,234</u>	<u>305,691</u>	<u>8,917</u>	<u>-</u>	<u>745,842</u>
Liabilities and fund balances:					
- Liabilities -					
Accounts payable	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
- Fund balances -					
Reserved for SFCC Escrow	77,014	229,557	-	-	306,571
Reserved for Future Construction	-	-	6,417	-	6,417
Unreserved fund balance	<u>354,220</u>	<u>76,134</u>	<u>-</u>	<u>-</u>	<u>430,354</u>
Total fund balances	<u>431,234</u>	<u>305,691</u>	<u>6,417</u>	<u>-</u>	<u>743,342</u>
Total liabilities and fund balances	<u>431,234</u>	<u>305,691</u>	<u>8,917</u>	<u>-</u>	<u>745,842</u>

BATH COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2007

	SEEK Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Funds	Total
Revenues:					
From local sources:					
General real property tax	-	197,711	-	-	197,711
Intergovernmental - State	<u>177,320</u>	<u>378,343</u>	<u>-</u>	<u>481,597</u>	<u>1,037,260</u>
<u>Total revenues</u>	<u>177,320</u>	<u>576,054</u>	<u>-</u>	<u>481,597</u>	<u>1,234,971</u>
Expenditures:					
Building renovations and additions	-	-	1,707,515	-	1,707,515
Debt service:					
Principal	-	-	-	810,907	810,907
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,537</u>	<u>397,537</u>
<u>Total expenditures</u>	<u>-</u>	<u>-</u>	<u>1,707,515</u>	<u>1,208,444</u>	<u>2,915,959</u>
Excess (deficit) of revenues over expenditures	<u>177,320</u>	<u>576,054</u>	<u>(1,707,515)</u>	<u>(726,847)</u>	<u>(1,680,988)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	726,847	726,847
Operating transfers out	<u>-</u>	<u>(570,647)</u>	<u>-</u>	<u>-</u>	<u>(570,647)</u>
<u>Total other financing sources (uses)</u>	<u>-</u>	<u>(570,647)</u>	<u>-</u>	<u>726,847</u>	<u>156,200</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	177,320	5,407	(1,707,515)	-	(1,524,788)
Fund balance, July 1, 2006	<u>253,914</u>	<u>300,284</u>	<u>1,713,932</u>	<u>-</u>	<u>2,268,130</u>
Fund balance, June 30, 2007	<u>431,234</u>	<u>305,691</u>	<u>6,417</u>	<u>-</u>	<u>743,342</u>

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBATH COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2007

<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, 2006</u>	<u>Fund Balance</u> <u>June 30, 2007</u>
General	21,291	24,210	(2,919)	11,666	8,747
Picture fund	2,908	2,908	-	-	-
Academic fund	150	-	150	-	150
Walmart teacher program	1,000	-	1,000	-	1,000
Guidance	1,015	176	839	535	1,374
Talented and gifted	357	357	-	-	-
Faculty	2,598	3,181	(583)	1,237	654
Beta club	5,719	4,673	1,046	1,177	2,223
Coed "Y" club	-	-	-	354	354
FBLA	1,671	1,497	174	200	374
FCCLA	2,275	2,304	(29)	496	467
FFA	8,289	6,820	1,469	1,111	2,580
Future educators of America	-	-	-	373	373
Junior beta club	-	674	(674)	674	-
Library club	-	-	-	15	15
Spirit club	12	77	(65)	164	99
TSA club	-	2,294	(2,294)	3,218	924
Drivers ed	375	318	57	-	57
FCA	285	270	15	-	15
Ag. Mechanics	2,160	1,418	742	2,345	3,087
Agr. Science	2,885	4,129	(1,244)	1,573	329
Art	-	-	-	115	115
Band	-	20	(20)	21	1
Biology	-	-	-	282	282
Chorus	-	-	-	56	56
Dance team	-	29	(29)	29	-
Horticulture	14,351	12,209	2,142	13,089	15,231
Journalism	6,070	12,699	(6,629)	11,833	5,204
Spanish club	645	913	(268)	736	468
Woods	-	-	-	242	242
Consumer sciences	1	-	1	-	1
Humanities	1,544	1,515	29	-	29
Athletics	35,892	37,198	(1,306)	18,803	17,497
Athletics baseball	4,116	4,587	(471)	1,058	587
Athletics boys basketball	1,000	2,476	(1,476)	2,282	806
Cheerleaders	593	680	(87)	176	89
Boys cross country	750	815	(65)	211	146
Football	2,600	4,472	(1,872)	2,578	706
Girls cross country	750	785	(35)	261	226
Athletics girls basketball	3,331	5,349	(2,018)	2,603	585

This fund maintains accounts separate from MUNIS at June 30, 2007.

BATH COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBATH COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2007

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of <u>Revenues over Expenditures</u>	<u>Fund Balance July 1, 2006</u>	<u>Fund Balance June 30, 2007</u>
Physical Education	-	-	-	30	30
Girls softball	400	491	(91)	439	348
Boys golf	1,050	786	264	9	273
Girls golf	900	907	(7)	195	188
Tennis	300	-	300	15	315
Boys soccer	400	400	-	9	9
Girls soccer	400	397	3	278	281
Track	300	255	45	25	70
Girls volleyball	789	706	83	-	83
Junior class	25,298	24,581	717	1,689	2,406
Sophomore class	10,803	8,834	1,969	4,578	6,547
Senior class	29,618	29,829	(211)	225	14
Freshman class	7,518	7,886	(368)	2,681	2,313
Youth service center	773	496	277	157	434
YSC-CI fun	<u>2,032</u>	<u>1,739</u>	<u>293</u>	<u>21</u>	<u>314</u>
<u>Sub-total</u>	<u>205,214</u>	<u>216,360</u>	<u>(11,146)</u>	<u>88,737</u>	<u>78,720</u>
Less: Interfund transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u><u>205,214</u></u>	<u><u>216,360</u></u>	<u><u>(11,146)</u></u>	<u><u>88,737</u></u>	<u><u>78,720</u></u>

This fund maintains accounts separate from MUNIS at June 30, 2007.

BATH COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEMIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2007

	<u>Bath County Middle School</u>	<u>Bethel Elementary</u>	<u>Owingsville Elementary</u>	<u>Salt Lick Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>					
Activity funds	101,840	11,692	49,842	13,923	177,297
<u>EXPENDITURES:</u>					
Activity funds	<u>101,708</u>	<u>14,342</u>	<u>49,232</u>	<u>15,503</u>	<u>180,785</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	132	(2,650)	610	(1,580)	(3,488)
Fund Balance, July 1, 2006	<u>24,826</u>	<u>9,185</u>	<u>26,244</u>	<u>16,836</u>	<u>77,091</u>
Fund Balance, June 30, 2007	<u><u>24,958</u></u>	<u><u>6,535</u></u>	<u><u>26,854</u></u>	<u><u>15,256</u></u>	<u><u>73,603</u></u>

These funds maintain accounts separate from MUNIS at June 30, 2007.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTSAt June 30, 2007

Below are minimum obligations for each individual issue:

School Year	February 2003 Refunding Issue			
	KSFCC		District	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007 - 08	<u>120,402</u>	<u>1,204</u>	<u>79,598</u>	<u>796</u>
<u>Totals</u>	<u>120,402</u>	<u>1,204</u>	<u>79,598</u>	<u>796</u>

School Year	April 2003 (KISTA)	
	<u>Principal</u>	<u>Interest</u>
2007 - 08	23,132	4,884
2008 - 09	23,757	4,259
2009 - 10	24,383	3,517
2010 - 11	25,258	2,663
2011 - 12	21,632	1,716
2012 - 13	<u>22,507</u>	<u>877</u>
<u>Totals</u>	<u>140,669</u>	<u>17,916</u>

School	September 1996 Issue	
	KSFCC	
2007 - 08	10,000	6,230
2009 - 10	10,000	5,110
2010 - 11	10,000	4,550
2011 - 12	10,000	3,990
2012 - 13	15,000	3,420
2013 - 14	15,000	2,565
2014 - 15	15,000	1,710
2015 - 16	<u>15,000</u>	<u>855</u>
<u>Totals</u>	<u>110,000</u>	<u>34,100</u>

BATH COUNTY SCHOOL DISTRICT

SCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)

At June 30, 2007

Below are minimum obligations for each individual issue:

School <u>Year</u>	December 1997 Issue			
	KSFCC		District	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007 - 08	184,556	17,018	80,444	19,214
2008 - 09	181,445	8,555	173,555	13,329
2009 - 10	92,261	2,168	197,739	4,647
<u>Totals</u>	458,262	27,741	451,738	37,190

School <u>Year</u>	September 1998 Issue			
	KSFCC		District	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007 - 08	7,414	9,276	147,586	38,924
2008 - 09	7,257	8,983	157,743	32,817
2009 - 10	19,837	8,441	150,163	26,659
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
2017 - 18	26,175	1,498	53,825	3,814
2018 - 19	22,175	471	62,825	1,335
<u>Totals</u>	227,197	65,034	1,027,803	190,045

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)At June 30, 2007

Below are minimum obligations for each individual issue:

School Year	KISTA November 2001 Remarketing Issue		School Year	June 2004 Issue	
	District			KSFCC	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2007 - 08	50,000	10,280	2007 - 08	30,000	33,520
2008 - 09	55,000	8,282	2008 - 09	35,000	32,485
2009 - 10	55,000	6,110	2009 - 10	35,000	31,278
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
			2012 - 13	40,000	27,270
<u>Totals</u>	<u>280,000</u>	<u>29,727</u>	2013 - 14	40,000	25,670
			2014 - 15	40,000	24,070
School Year	January 2004 (KISTA)		2015 - 16	45,000	22,230
	<u>Principal</u>	<u>Interest</u>	2016 - 17	45,000	20,160
2007 - 08	11,784	2,488	2017 - 18	45,000	18,090
2008 - 09	12,097	2,229	2018 - 19	50,000	16,020
2009 - 10	12,410	1,926	2019 - 20	50,000	13,720
2010 - 11	12,723	1,585	2020 - 21	55,000	11,270
2011 - 12	13,140	1,203	2021 - 22	55,000	8,575
2012 - 13	11,158	783	2022 - 23	60,000	5,880
2013 - 14	<u>11,523</u>	<u>403</u>	2023 - 24	<u>60,000</u>	<u>2,940</u>
	<u>84,835</u>	<u>10,617</u>		<u>755,000</u>	<u>351,918</u>

BATH COUNTY SCHOOL DISTRICT

SCHEDULE OF INDIVIDUAL DEBT SERVICE REQUIREMENTS (CONTINUED)

At June 30, 2007

Below are minimum obligations for each individual issue:

August 2005 Issue

School Year	KSFCC		District	
	Principal	Interest	Principal	Interest
2007 - 08	35,167	24,376	4,833	197,540
2008 - 09	32,773	23,255	2,227	197,423
2009 - 10	22,888	22,337	2,112	197,351
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>
	<u>646,215</u>	<u>265,499</u>	<u>4,983,785</u>	<u>2,424,838</u>

School Year	January 2006 (KISTA)		September 2006 (KISTA)	
	Principal	Interest	Principal	Interest
2007 - 08	14,230	4,246	18,437	11,361
2008 - 09	12,150	3,776	22,099	6,929
2009 - 10	12,588	3,376	19,131	6,155
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>
<u>Totals</u>	<u>118,874</u>	<u>21,881</u>	<u>208,738</u>	<u>46,837</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2007

<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	N/A	N/A	266,437
School Lunch Program	* 10.555	N/A	N/A	489,522
Child and Adult Care Food Program	* 10.558	N/A	N/A	6,971
Summer Food Service Program for Children	* 10.559	N/A	N/A	21,741
Passed through State Department of Agriculture:				
Food Donation (non-cash assistance)	10.550	N/A	N/A	<u>56,310</u>
 <u>Total U.S. Department of Agriculture</u>				 <u>840,981</u>
 <u>U. S. Department of Commerce</u>				
-Direct-				
Environmental Education	11.420	2707	9030	<u>6,786</u>
 <u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title I	* 84.010	3106	632,335	166,547
	* 84.010	3107	546,304	361,872
Title I School Improvement	* 84.010	3205	115,295	14,171
Title I Professional Development	* 84.010	3107D	88,776	47,289
Title I Parental Involvement	* 84.010	3107M	6,453	<u>2,895</u>
				<u>592,774</u>
Migrant	84.011	3116	66,000	52,703
	84.011	3117	59,696	<u>16,868</u>
				<u>69,571</u>
Even Start Family Literacy	84.213	3236	82,500	2,082
	84.213	3237	75,000	<u>66,993</u>
				<u>69,075</u>
Title V	84.298	3347	3,700	<u>2,807</u>
- Special Education Cluster -				
IDEA - B Basic	* 84.027	3376	404,674	54,125
	* 84.027	3377	403,987	380,291
IDEA - B Preschool	* 84.173	3436	36,114	9,369
	* 84.173	3437	36,118	<u>36,066</u>
				<u>479,851</u>
Vocational Education	84.048	3487	25,957	25,957
	84.048	3486A	1,144	<u>1,144</u>
				<u>27,101</u>
Title VI - Rural & Low Income	84.358	3506	59,673	44,959
	84.358	3507	57,386	<u>3,120</u>
				<u>48,079</u>

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2007

<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>
Teacher Quality	84.367	4016	151,638	6,868
	84.367	4017	150,870	137,702
				144,570
Title IV	84.186	4066	15,567	4,363
	84.186	4067	11,886	4,812
				9,175
Education Technology	84.318	4256	12,280	1,284
	84.318	4257	6,472	5,978
				7,262
Reading First	84.357A	5085R	243,442	16,463
	84.357A	5086R	243,442	243,956
				260,419
Hurricane Education Recovery Passed through Workforce Cabinet:	84.938	6926	6,000	3,240
Adult Ed - Development Funds	84.002	3657	3,120	3,120
Adult Education	84.002	3737	23,370	23,369
Adult Education	84.002	3737S	1,427	1,427
				27,916
<u>Total Department of Education</u>				1,741,840
<u>Corporation for National & Community Service</u>				
Passed through State Department of Education:				
Service Learning Project	94.004	6754	4,000	1,870
	94.004	6757	4,000	1,775
<u>Total Corporation for National & Community Service</u>				3,645
<u>Total Federal Awards Expended</u>				2,593,252

* - 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

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

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, 2007, which collectively comprise the Bath County School District's basic financial statements and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Bath County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Bath County School District's financial statements that is more than inconsequential will not be prevented or detected by the Bath County School District's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-1, 2007-2, 2007-3 and 2007-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Bath County School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Bath County School District in a separate letter dated October 11, 2007.

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.

The Bath County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bath County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, Kentucky State Committee for School District Audits 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 11, 2007

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 2007. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2007.

Internal Control Over Compliance

The 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-5 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we do not consider it to be a material weakness.

Bath County School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Bath County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board, management, Kentucky State Committee for School District Audits 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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 11, 2007

BATH COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2007

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. Control deficiencies were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. A control deficiency 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 did not disclose any audit findings which we are 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
CFDA number 84.010
- Special Education Cluster -
IDEA-B Basic
IDEA-B Preschool
CFDA numbers 84.027 and 84.173
 - U.S. Department of Agriculture
Passed through State Department of Education
-Child Nutrition Cluster -
School Lunch and Breakfast Programs, Summer Food
Service Program for Children
CFDA numbers 10.553, 10.555, and 10.559
Child and Adult Care Food Program
CFDA number 10.558
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.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2007- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2007-1:**

Condition:

We noted several gift cards and awards were distributed to personnel and to students for various incentive programs. However, a written record of the purpose or a signed statement of the recipient was not maintained.

Criteria:

The District should maintain documentary evidence of the purpose and personnel/student receiving incentive awards.

Cause:

Written records were not maintained.

Effect:

Controls are less effective regarding this type transaction. There is an enhanced risk that a fraudulent transaction could occur without written documentation.

Recommendation:

The District should maintain documentary evidence of the purpose and personnel/student receiving incentive awards.

District Response:

The District will develop procedures establishing documentary evidence for the purpose and require signature from the personnel/students receiving the benefits.

2007-2:

Condition:

We noted sales tax paid on various purchase items including payments made to Hewlett-Packard totaling \$755.88.

Criteria:

As an entity exempt from sales tax on purchased items, the District should not pay sales tax.

Cause:

The District is not monitoring invoices in an effective manner before payment is disbursed.

Effect:

The District has used funds to pay sale tax for which it is exempt.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2007- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2007-2:**

Recommendation:

The District should enhance its monitoring procedures for disbursements transactions before payment is made to ensure sales tax is not included.

District Response:

The District will enhance its monitoring procedures for disbursement transactions before payment is made to ensure sales tax is not included. The District has and will recover costs related to sales tax paid as noted in the current year audit.

2007-3:

Condition:

We noted the following transactions without sufficient corroborating underlying documentation as to its purpose:

Check #	Check Date	Vendor	Amount
29628	8/24/06	Platinum Plus for Business	
		United Airlines	785.95
		Root-a-bakers	111.24
		Golfgalaxy.com	49.37
		Books a Million	27.33
		Party City	12.30
		Lexington Marriott	790.62
30193	11/17/06	Platinum Plus for Business	
		Barnes and Noble	341.70
		Whayne Supply Co.	1225.94
		Embassy Suites	292.62
		Resources for Better Living	62.00
		Mcdonalds	4.88
		Cracker Barrel	22.43
		Panera Bread Company	7.17
		Rafferty's	62.53
		Walmart	10.59
30694	2/15/07	Platinum Plus for Business	
		Delta Air	554.97

Criteria:

All disbursement transactions should be supported by adequate supporting documentation before payment is made. Purchase orders should be secured on individual credit card transactions.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2007- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2007-3:**

Cause:

The District did not effectively monitor disbursement transactions and secure adequate supporting documentation before payment was made.

Effect:

Costs may be for unallowable purposes. There are enhanced risks that transactions may be occurring for fraudulent purposes without adequate supporting documentation.

Recommendation:

The District should ensure all disbursement transactions are supported by adequate documentation before payment is made through enhanced monitoring procedures. Purchase orders should be secured on individual credit card transactions.

District Response:

The District will establish more effective monitoring procedures for its disbursement transactions to ensure adequate supporting documentation is secured before payment is made.

2007-4:

Condition:

Travel related expense of \$19.84 was charged and paid by the District Reading First Program relating to disallowed in-room movies and beverages.

Criteria:

The type cost charged and paid by the District Reading First Program is not an allowable cost of the program.

Cause:

The District did not effectively review invoices for disallowed costs before making the disbursement transaction.

Effect:

The cost is not for an allowable purpose.

Recommendation:

The District should enhance its policies and procedures to ensure monitoring is adequate to allow for review of allowable and unallowable costs before payment is made.

BATH COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2007- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2007-4:**

District Response:

The District will enhance its policies and procedures to ensure adequate monitoring to allow for review of allowable and unallowable costs before payment is made. District personnel have reimbursed the program for the disallowed cost.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -**2007-5:**

Condition:

We noted the following transactions without sufficient corroborating underlying documentation as to its purpose:

31236	5/22/07	Business Card	
		Galt House –IDEA-B	650.70

Criteria:

All disbursement transactions should be supported by adequate supporting documentation before payment is made. Purchase orders should be secured on individual credit card transactions.

Cause:

The District did not effectively monitor disbursement transactions and secure adequate supporting documentation before payment was made.

Effect:

Costs may be for unallowable purposes. There are enhanced risks that transactions may be occurring for fraudulent purposes without adequate supporting documentation.

Recommendation:

The District should ensure all disbursement transactions are supported by adequate documentation before payment is made through enhanced monitoring procedures. Purchase orders should be secured on individual credit card transactions.

District Response:

The District will establish more effective monitoring procedures for its disbursement transactions to ensure adequate supporting documentation is secured before payment is made.

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

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, 2007, 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 11, 2007, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 11, 2007, 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 11, 2007

BATH COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
For the Year Ended June 30, 2007

Review of Prior Year Comments

1. Distribution of student/personnel incentive awards/gifts

Condition:	We noted that gift cards were distributed to various personnel as incentives. However, a written record of the purpose and personnel receiving the benefits were not maintained.
Criteria:	The District should maintain documentary evidence of the purpose and personnel receiving incentive awards.
Cause:	Written records were not maintained.
Effect:	Controls are less effective regarding this type transaction. The risk is greater that a fraudulent transaction could occur without written documentation.
Recommendation:	The District should maintain documentary evidence of the purpose and list personnel receiving incentive awards.
Management's Response:	The District will maintain documentary evidence of the purpose and list personnel receiving incentive awards.
Current Year:	Reference the schedule of findings and questioned costs related to this prior year comment.

2. Fixed asset reconciliation procedures

Condition:	We noted no written reconciliation procedures between the property insurance listing of vehicles and the MUNIS fixed asset system. We noted during the current year two new bus purchases were not included on the MUNIS fixed asset system.
Criteria:	Fixed assets detail reconciliation procedures for the District should include evidence of review between the property insurance listing of vehicles and the MUNIS fixed asset system.
Cause:	No reconciliation was performed.
Effect:	Fixed assets may be overstated or understated as reported on the financial system. The District may pay insurance on disposed or idle assets.

BATH COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2007

Recommendation: The District should include evidence of review between the property insurance listing of vehicles and the MUNIS fixed asset system.

Management's Response: A periodic written reconciliation will be performed between the property insurance listing of vehicles and the MUNIS fixed asset System.

Current Year Audit Comment: The District has developed and implemented adequate procedures for reconciling underlying property insurance documents with MUNIS fixed asset records.

3. Booster club reporting

Condition: The Bath County High School baseball booster club did not submit an annual financial report for the year ended.

Criteria: Accounting procedures for school activity funds require submission of an annual financial report to the principal by July 25 of the previous year-end.

Cause: No annual report was submitted.

Effect: The booster club may be raising and spending funds for activities not approved by the Board.

Recommendation: The booster club should submit the required documents on a timely basis.

Management's Response: The baseball booster club will be abolished no longer allowing them to conduct fundraising activities in the school's name.

Current Year Audit Comment: No baseball booster club activity was noted during the current year audit.

Current Year Auditor Comments**1. Electronic bank activities monitoring**

Condition: No written policies are in effect for the District's electronic banking activities.

BATH COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSYear Ended June 30, 2007

Criteria:	Written policies and procedures allow more effective monitoring of on-line banking transactions.
Cause:	The District has not established policies and procedures for its electronic banking activities.
Effect:	Without written policies and established monitoring procedures, risks are higher that unauthorized transactions may occur.
Recommendation:	The District should establish policies and procedures for its electronic banking activities.
Management's Response:	The District will establish written policies and procedures related to its electronic banking activities.