

**FORT THOMAS INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**- WITH INDEPENDENT AUDITORS' REPORT -**

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## Independent Auditors' Report

Members of the Board of Education  
Fort Thomas Independent School District  
28 N. Ft. Thomas Avenue  
Fort Thomas, Kentucky 41075

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fort Thomas Independent 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 the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – 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 opinion.

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 Fort Thomas Independent School District, as of June 30, 2007, and the respective changes in financial position, respective budgetary comparison for the General Fund and, where applicable, cash flows 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 19, 2007 on our consideration of the Fort Thomas Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. In accordance with OMB Circular A-133, we have also issued our report dated October 19, 2007 on our consideration of the Fort Thomas Independent School District's compliance with requirements applicable to each major program and on internal control over compliance. These reports are 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 6 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 an opinion on the financial statements that collectively comprise Fort Thomas Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements shown on pages 31 and 32 are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 38 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Fort Thomas Independent School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Bertke & Sparks, Inc.  
October 19, 2007

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Fort Thomas Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Fort Thomas Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source 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. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fort Thomas Independent 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 District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

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

Fort Thomas Independent School District Finance Corporation - On December 12, 1988, the Fort Thomas Independent Board of Education resolved to authorize the establishment of the Fort Thomas Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Fort Thomas Independent Board of Education also comprise the Corporation's Board of Directors.

**Basis of Presentation**

District-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 district-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 district-wide statements and the statements for governmental funds.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) 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 unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts 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 on page 38. This is a major fund of the District.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

(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 (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District

II. Debt Service Fund

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

III. Proprietary Fund (Enterprise Fund)

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

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

VI. Fiduciary Fund Type (Agency and Trust Funds)

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

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they 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 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.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Property Taxes (cont'd)

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 communication services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than 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 Board 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, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

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 district-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 district-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 asset's 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:

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Capital Assets (cont'd)

<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
Other	10 years

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 District's experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-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.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

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 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 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 District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

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

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
 FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose 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 District had on deposit cash and cash equivalents totaling \$6,032,502. Of the total cash balance, \$100,000 was covered by the Federal Deposit Insurance Corporation (FDIC), with the remainder 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.

Cash and cash equivalents at June 30, 2007 consist of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Fifth Third Bank-checking	<u>\$ 6,032,502</u>	<u>\$ 5,299,014</u>

Breakdown per financial statements:

Governmental funds	\$ 4,777,668
Proprietary funds	149,296
Activity funds	<u>372,050</u>
	<u>\$ 5,299,014</u>

**NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2007, this amount totaled approximately \$635,785 for those employees with twenty-seven or more years of experience. The Board has reserved \$55,467 of its General Fund for unpaid sick leave benefits.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE F - LEASE OBLIGATIONS AND BONDED DEBT**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Campbell County and the Fort Thomas Independent School District Finance Corporation, aggregating \$34,826,886.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
July 1, 1992	\$ 235,000	5.80% - 6.40%
February 1, 1998	495,000	4.10% - 4.20%
November 3, 1998	680,000	3.60% - 4.00%
April 1, 2000	14,020,000	5.25% - 5.25%
January 1, 2004	61,476	1.00% - 3.50%
April 1, 2006	11,220,000	4.25% - 4.38%
July 5, 2006	1,160,000	3.50% - 4.20%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Campbell County Fiscal Court and Fort Thomas Independent 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 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 schedule in Note P sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

All bond issues 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 reported in Note P.

**NOTE G - COMMITMENTS UNDER NONCAPITALIZED LEASES**

Future minimum lease payments under operating lease agreements for equipment as of June 30, 2007 are as follows:

Year ending June 30:		
	2008	\$ 75,132
	2009	75,132
	2010	45,096
	2011	15,060
	2012	1,255
		<hr/>
	Total Minimum Rentals	\$ 211,675
		<hr/>

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE H - RETIREMENT PLANS**

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). Funding for the plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the federal program for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employees 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 contribution.

The District's total payroll for the year was \$12,958,575. The payroll for employees covered under KTRS was \$10,039,451 and for CERS was \$2,573,547.

The contribution requirement for CERS for the year ended June 30, 2007 was \$468,647, which consisted of \$339,826 from the District and \$128,821 from the employees.

The contribution requirement for KTRS for the year ended June 30, 2007 was \$1,018,814, which consisted of \$29,427 from the District and \$989,387 from the employees.

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. KTRS and CERS both issue publicly available financial reports that include all financial statements and required supplementary information. The reports may be obtained in writing from the Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800, and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**NOTE I - CONTINGENCIES**

Grant Fund Approval

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 grantors' review indicates that the funds have not been used for the intended purpose, the grantor 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 the programs.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

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

**NOTE L - DEFICIT OPERATING/FUND BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Building Fund	\$ 668,379
Construction Fund	\$ 6,422,338
Food Service	\$ 7,622

**NOTE M - 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).

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE N - TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	51	1	Indirect cost	\$ 12,989
Operating	320	360	BG-99-208 New Middle School	\$ 1,016,425
Operating	1	2	Technology Match	\$ 32,536

**NOTE O - ON-BEHALF PAYMENTS**

For the year ended June 30, 2007, total payments of \$2,762,060 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**SUMMARY OF AUDITORS' RESULTS**

1. The Independent Auditors' Report expresses an unqualified opinion on the general-purpose financial statements of the Fort Thomas Independent School District.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' 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.
3. No instances of noncompliance material to the financial statements of the Fort Thomas Independent School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Food Donation Program (non-monetary), CFDA #10.550; School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Title I - Grants to Local Educational Agencies, CFDA #84.010; and Special Education Grants to States, CFDA # 84.027; and Special Education - Preschool Grants, CFDA #84.173, expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any audit findings reportable under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs include: Food Donation Program (non-monetary), CFDA #10.550; School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Title I - Grants to Local Educational Agencies, CFDA #84.010; and Special Education Grants to States, CFDA # 84.027; and Special Education - Preschool Grants, CFDA #84.173.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Fort Thomas Independent School District qualifies as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL  
JUNE 30, 2007**

**BOARD MEMBERS**

Chuck Thompson  
Term Expires - December 31, 2010

Brad Fennell  
Term Expires - December 31, 2010

Nancy Baker  
Term Expires - December 31, 2008

Karen Allen  
Term Expires - December 31, 2008

Scott Johnson  
Term Expires - December 31, 2010

**ADMINISTRATIVE PERSONNEL**

John Williamson, Superintendent  
and Secretary to the Board of Education

Annette Bemerer, Treasurer

**INDEPENDENT AUDITORS' 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**

Members of the Board of Education  
Fort Thomas Independent School District  
28 N. Ft. Thomas Avenue  
Fort Thomas, Kentucky 41075

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fort Thomas Independent School District as of and for the year ended June 30, 2007, which collectively comprise the Fort Thomas Independent School District's basic financial statements and have issued our report thereon dated October 19, 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 and the audit requirements prescribed by the Kentucky State Committee for School District Audits.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fort Thomas Independent 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 Fort Thomas Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fort Thomas Independent School District's internal control over financial reporting.

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 Fort Thomas Independent 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 Fort Thomas Independent School District's financial statements that is more than inconsequential will not be prevented or detected by the Fort Thomas Independent School District's internal control.

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 Fort Thomas Independent School District's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fort Thomas Independent 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or audit requirements prescribed by the Kentucky State Committee for School District Audits.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not and should not be used by anyone other than these specified parties.

Bertke & Sparks, Inc.  
October 19, 2007

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

Members of the Board of Education  
Fort Thomas Independent School District  
28 N. Ft. Thomas Avenue  
Fort Thomas, Kentucky 41075

**Compliance**

We have audited the compliance of the Fort Thomas Independent 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. The Fort Thomas Independent School District's major federal programs are identified in the summary of auditors' 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 the Fort Thomas Independent School District's management. Our responsibility is to express an opinion on the Fort Thomas Independent 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 U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits. 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 the Fort Thomas Independent 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 of the Fort Thomas Independent School District's compliance with those requirements.

In our opinion, the Fort Thomas Independent 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 the Fort Thomas Independent 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 the Fort Thomas Independent School District's internal control over compliance with 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 Fort Thomas Independent School District's internal control over compliance.

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.

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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. In addition, the results of our test disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not and should not be used by anyone other than these specified parties.

Bertke & Sparks, Inc.  
October 19, 2007

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

In planning and performing our audit of the financial statements of Fort Thomas Independent 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 operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate report dated October 19, 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 19, 2007 on the financial statements of the Fort Thomas Independent School District.

**CURRENT YEAR RECOMMENDATIONS**

**Activity Funds**

**Highlands High School**

- During our audit, we noted that seventeen (17) activity funds ended the fiscal year with a negative balance. The seventeen (17) funds with negative balances are the following Athletic Funds:

Football, Girls Basketball, Boys Track, Girls Track, Boys Cross Country, Girls Cross Country, Softball, Boys Tennis, Girls Tennis, Boys Golf, Girls Golf, Boys Swimming, Girls Swimming, Volleyball, Baseball, Girls Soccer and Band.

The Redbook – Accounting Procedures for Kentucky School Activity Funds, states that no school activity fund shall end the fiscal year (June 30) with a deficit balance. It is our recommendation that prior to the end of each fiscal year, authorized transfers should be made between accounts to bring any individual negative balances to zero.

**Management Response**

Starting next year, fiscal 2008, a plan has been implemented to not have deficits by sport as of June 30. An excel template has been created that will be used to plug in revenues and expenses as of year end. This spreadsheet will calculate transfers that need to be completed so each sport will not have a negative balance.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Highlands Middle School**

- During our audit, we noted that the Redbook ticket sales worksheet was not completed for any events where tickets were purchased throughout the year. The ticket sales worksheet needs to be completed for each event that tickets are sold and the first and last ticket purchased needs to be attached to the worksheet.

**Management Response**

- Tickets sold at the door: Each money box at the door will have Form F-SA-1 with the first adult ticket and first student ticket stapled. At the end of that performance's sales, the next adult and student ticket will be stapled. Money collected from that performance will be turned in with this form and the amount of money and number of tickets sold will be reconciled.
- Pre-sale tickets: There will be a master sheet that lists all students to pre-sell tickets, the number of tickets (and the ticket numbers) they were given, the tickets and numbers that were returned and the amount of money ultimately turned in. The person distributing these tickets will keep this master list until the event is over and will then turn in this list.

When a student turns in money, a form similar to a multiple receipt form, will be filled out to accompany the deposit. The form will contain the date, student's name, number of tickets sold and the amount turned in. The total for all students will be shown along with the total amount turned in for deposit. The form will be signed by the person collecting the money.

**Samuel Woodfill Elementary School**

- During our audit we noted several of the activity fund accounts have a negative balance. RedBook requires that no activity fund accounts end the year with a negative balance. It is our recommendation that prior to the end of each fiscal year, authorized transfers should be made between accounts to bring any individual negative balances to zero.
- During our audit, it was noted that invoices are not being defaced. The word "PAID" should be stamped or written across the face of the original invoice or sales receipt. This additional step is to protect the school from possibly paying the same invoice twice.
- We noted that several checks written were not supported by either a purchase order or a standard invoice. The proper procedure for the completion of standard invoices and purchase orders requires that the forms be completed with all pertinent information, including the payee, item to be purchased, amount and date, and must be completed prior to obtaining an authorized signature. All signatures are required to be original signatures. An original vendor invoice must also be attached.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

Management Response

- You noted that several of the activity fund accounts had a negative balance. We will make sure that prior to the end of the fiscal year, authorized transfers will be made between accounts to bring any individual negative balances to zero.
- You noted that some invoices had not been “defaced.” We will make sure that all our invoices are stamped “PAID” across the face of the original invoice to protect our school from possibly paying the same invoice twice.
- You noted that several checks written were not supported by either a purchase order or a standard invoice. We will support our checks with a completed purchase order or standard invoice.

**Ruth Moyer Elementary School**

- Any exceptions noted in testing appeared to be isolated incidents only.

**Robert D. Johnson Elementary School**

- Any exceptions noted in testing appeared to be isolated incidents only.

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**Samuel Woodfill Elementary School**

- Previously, we recommended that all disbursements be supported by either a purchase order or a standard invoice. During our audit, it was noted that this recommendation had not been implemented.

**Highlands High School**

- Previously, we recommended that no activity fund balance should have a negative balance at fiscal year end. During our audit, it was noted that this recommendation had not been implemented.