



Mary Taylor, CPA
Auditor of State

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, (the School District), as of and for the fiscal year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for General Fund 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 April 10, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America require. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards receipts and expenditures is 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. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid, with the first letters of "Mary" and "Taylor" being capitalized and prominent.

Mary Taylor, CPA
Auditor of State

April 10, 2008

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Kenton City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2007 are as follows:

- In total, net assets increased \$64,658, or 1 percent, not a significant change.
- For fiscal year 2007, general revenues were \$15,320,310, or 81 percent of total revenues, a percentage which is consistent with the prior fiscal year.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in a single column. For the School District, the General Fund is the most significant fund.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the General Fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1 Net Assets			
	Governmental Activities		
	2007	2006	Change
Assets:			
Current and Other Assets	\$9,913,862	\$9,862,911	\$50,951
Capital Assets, Net	3,467,593	3,621,516	(153,923)
Total Assets	13,381,455	13,484,427	(102,972)
Liabilities:			
Current and Other Liabilities	6,159,234	6,310,902	151,668
Long-Term Liabilities	1,047,176	1,063,138	15,962
Total Liabilities	7,206,410	7,374,040	167,630
Net Assets:			
Invested in Capital Assets	3,467,593	3,621,516	(153,923)
Restricted	220,037	199,204	20,833
Unrestricted	2,487,415	2,289,667	197,748
Total Net Assets	\$6,175,045	\$6,110,387	\$64,658

A review of the above table reflects that there was very little change from fiscal year 2006 to fiscal year 2007.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007 and 2006.

**Table 2
Change in Net Assets**

	Governmental Activities		Change
	2007	2006	
Revenues:			
Program Revenues			
Charges for Services	\$1,345,443	\$756,290	\$589,153
Operating Grants, Contributions, and Interest	2,140,047	2,646,607	(506,560)
Capital Grants and Contributions	39,786	8,329	31,457
Total Program Revenues	3,525,276	3,411,226	114,050
General Revenues			
Property Taxes	4,625,170	4,505,808	119,362
Income Taxes	1,873,694	1,682,025	191,669
Grants and Entitlements	8,498,576	8,129,915	368,661
Interest	248,780	204,157	44,623
Gifts and Donations	9,636	0	9,636
Miscellaneous	64,454	152,200	(87,746)
Total General Revenues	15,320,310	14,674,105	646,205
Total Revenues	18,845,586	18,085,331	760,255
Expenses:			
Instruction:			
Regular	\$9,530,277	\$8,854,924	(\$675,353)
Special	1,890,322	1,893,940	3,618
Vocational	287,123	324,904	37,781
Support Services:			
Pupils	731,577	788,577	57,000
Instructional Staff	829,191	749,756	(79,435)
Board of Education	37,907	36,434	(1,473)
Administration	1,714,006	1,484,734	(229,272)
Fiscal	465,985	418,356	(47,629)
Operation and Maintenance of Plant	1,552,435	1,395,350	(157,085)
Pupil Transportation	646,307	613,519	(32,788)
Central	40,302	14,731	(25,571)
Non-Instructional Services	806,186	784,432	(21,754)
Extracurricular Activities	249,310	151,941	(97,369)
Total Expenses	18,780,928	17,511,598	(1,269,330)
Increase in Net Assets	64,658	573,733	(509,075)
Net Assets at Beginning of Year	6,110,387	5,536,654	573,733
Net Assets at End of Year	\$6,175,045	\$6,110,387	\$64,658

Total revenues increased just over 4 percent from the prior fiscal year. Program revenues, which are primarily represented by charges for tuition, fees, and extracurricular activities, as well as restricted intergovernmental revenues were just under 19 percent of total revenues for both 2007 and 2006.

As previously mentioned, general revenues were 81 of total revenues for fiscal year 2007 and remained consistent with the prior fiscal year. Tax revenues and unrestricted state entitlements will continue to be crucial in providing support for School District operations.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Overall, expenses increased 7 percent from fiscal year 2006. As should be expected, instruction costs represent the largest of the School District's expenses, just over 62 percent. Both instruction and instructional staff expenses increased slightly from the prior fiscal year, primarily due to a 2.5 percent salary increase and step increases, as well as a 5 percent increase in medical benefits. Administration salary increases were 2.75 percent with a decrease in fringe benefits. Aging buildings will result in a continued increase in operation and maintenance costs.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3 Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$9,530,277	\$8,854,924	\$8,457,671	\$7,893,695
Special	1,890,322	1,893,940	472,892	530,420
Vocational	287,123	324,904	243,360	277,945
Support Services:				
Pupils	731,577	788,577	714,272	778,401
Instructional Staff	829,191	749,756	829,191	749,756
Board of Education	37,907	36,434	37,907	36,434
Administration	1,714,006	1,484,734	1,714,006	1,484,734
Fiscal	465,985	418,356	465,985	418,356
Operation and Maintenance of Plant	1,552,435	1,395,350	1,552,435	1,395,350
Pupil Transportation	646,307	613,519	595,288	535,526
Central	40,302	14,731	40,302	14,731
Non-Instructional Services	806,186	784,432	48,200	26,441
Extracurricular Activities	249,310	151,941	84,143	(41,417)
Total Expenses	\$18,780,928	\$17,511,598	\$15,255,652	\$14,100,372

The table above demonstrates that program expenses as well as the net costs of providing the programs remained fairly comparable to the prior fiscal year. A review will further demonstrate that several of the programs receive a significant amount of support from program revenues. The special instruction program receives a significant number of state and federal grants for special instruction purposes. Non-instructional services, which represents the cafeteria, receives program revenues from lunch sales and federal subsidies for food service operations. Extracurricular activities costs are paid for through admission charges for athletic events as well as from music and drama productions.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund is the School District's only major fund. While changes were not significant from the prior fiscal year, revenues increased 5 percent and expenditures only increased 4 percent; the result a 4.5 percent increase in fund balance.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2007, the School District amended its General Fund budget on a limited basis. The School District was on the ballot in every major election and attempted to limit changes so as not to confuse the voters. For revenues, the changes from the original budget to the final budget were done late in the fiscal year when personal property and state foundation revenues were more accurately known. Losses in enrollment and a large amount of foreclosures on property made revenues more difficult to project. Changes from the final budget to actual revenues were not significant.

While changes from the original budget to the final budget were not that significant, there were some moderate changes from the final budget to actual expenditures. Decisions were made late in the fiscal year regarding what positions and projects would be eliminated.

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2007, the School District had \$3,467,593 invested in capital assets (net of accumulated depreciation), a decrease of \$153,923, or just over 4 percent. This decrease was due to the fact that depreciation exceeded additions for the fiscal year. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt - At June 30, 2007, the only long-term obligation was for compensated absences.

Current Issues

The Kenton City School District is still in a state of slow economic recovery. A new Super Wal-Mart store was opened in the spring of 2006, along with a small strip mall containing six additional retail stores. An Arby's has been built on adjoining land. Some of the industrial manufacturing plants within our community are still cutting back on the number of employees, and their wages and benefits. This has slowed down our recovery and caused our community to be less giving with the School District's request for additional operating monies. The School District is also now involved in an Ohio School Facilities project to build all new schools K through 12.

The School District has a need for additional revenue to continue to operate at current levels through fiscal year 2010. With an additional income tax levy not taking effect until January 1 of the year following passage, it is critical to the School District that a levy be passed. With the voters having already turned down a .75 percent income tax, the Board of Education has lived within it means by staff reduction and limiting budgets. Declining enrollment also reduces revenues but has allowed the Board of Education to reduce staff without effecting coarse offerings or hurting educational programs.

The School District is still very concerned with the impact of H.B. 66 which eliminated the tangible property tax collections. The State has promised to hold harmless the loss of taxes through State funding, and so far they have kept their word. However, that could change at any time. In other tax collections, real estate in the current fiscal year showed a 2.6 percent increase over the prior year. Since the School District is at the minimum 20 mill floor, the increase in value does cause an increase in the collection of local dollars. This will result in a higher overall valuation and result in less state foundation funding. To complicate things further, the agricultural farm land values declined, shifting a heavier tax burden to the residential taxpayer, thus causing an even larger increase to home owners.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The passage of additional operating monies or a change in the way the State of Ohio funds schools is the only chance we have of maintaining our existing school programs as they are today. Our Board of Education is committed in passing a bond issue to build new schools and operate them efficiently.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Steve Ashba, Treasurer, Kenton City School District, 222 West Carrol Street, Kenton, Ohio 43326.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,644,998
Cash and Cash Equivalents with Fiscal Agent	217
Accounts Receivable	27,399
Accrued Interest Receivable	23,725
Intergovernmental Receivable	115,111
Income Taxes Receivable	854,238
Prepaid Items	8,394
Inventory Held for Resale	2,579
Materials and Supplies Inventory	6,939
Property Taxes Receivable	4,230,262
Nondepreciable Capital Assets	638,639
Depreciable Capital Assets, Net	2,828,954
Total Assets	<u>13,381,455</u>
Liabilities:	
Accounts Payable	26,826
Accrued Wages and Benefits Payable	1,718,242
Matured Compensated Absences Payable	43,799
Intergovernmental Payable	461,983
Deferred Revenue	3,908,384
Long-Term Liabilities:	
Due Within One Year	94,696
Due in More Than One Year	952,480
Total Liabilities	<u>7,206,410</u>
Net Assets:	
Invested in Capital Assets	3,467,593
Restricted For:	
Capital Projects	20,736
Set Asides	68,364
Other Purposes	130,937
Unrestricted	2,487,415
Total Net Assets	<u><u>\$6,175,045</u></u>

See accompanying notes to basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

		Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
	Expenses				
Governmental Activities:					
Instruction:					
Regular	\$9,530,277	\$801,826	\$250,044	\$20,736	(\$8,457,671)
Special	1,890,322		1,417,430		(472,892)
Vocational	287,123		43,763		(243,360)
Support Services:					
Pupils	731,577		7,052	10,253	(714,272)
Instructional Staff	829,191				(829,191)
Board of Education	37,907				(37,907)
Administration	1,714,006				(1,714,006)
Fiscal	465,985				(465,985)
Operation and Maintenance of Plant	1,552,435				(1,552,435)
Pupil Transportation	646,307	19,694	22,528	8,797	(595,288)
Central	40,302				(40,302)
Non-Instructional Services	806,186	362,470	395,516		(48,200)
Extracurricular Activities	249,310	161,453	3,714		(84,143)
Total Governmental Activities	<u>\$18,780,928</u>	<u>\$1,345,443</u>	<u>\$2,140,047</u>	<u>\$39,786</u>	<u>(15,255,652)</u>
General Revenues:					
					4,625,170
Property Taxes Levied for General Purposes					1,873,694
Income Taxes Levied for General Purposes					8,498,576
Grants and Entitlements not Restricted to Specific Programs					248,780
Interest					9,636
Gifts and Donations					64,454
Miscellaneous					<u>15,320,310</u>
Total General Revenues					
Change in Net Assets					64,658
Net Assets at Beginning of Year (Restated - Note 3)					<u>6,110,387</u>
Net Assets at End of Year					<u><u>\$6,175,045</u></u>

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,404,702	\$157,806	\$4,562,508
Cash and Cash Equivalents with Fiscal Agent		217	217
Accounts Receivable	27,202	197	27,399
Accrued Interest Receivable	23,725		23,725
Intergovernmental Receivable	13,950	101,161	115,111
Income Taxes Receivable	854,238		854,238
Prepaid Items	8,394		8,394
Inventory Held for Resale		2,579	2,579
Materials and Supplies Inventory		6,939	6,939
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	82,490		82,490
Property Taxes Receivable	4,230,262		4,230,262
Total Assets	<u>9,644,963</u>	<u>268,899</u>	<u>9,913,862</u>
Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	26,035	791	26,826
Accrued Wages and Benefits Payable	1,567,608	150,634	1,718,242
Matured Compensated Absences Payable	43,799		43,799
Intergovernmental Payable	420,262	41,721	461,983
Deferred Revenue	4,130,877	42,678	4,173,555
Total Liabilities	<u>6,188,581</u>	<u>235,824</u>	<u>6,424,405</u>
Fund Balances:			
Reserved for Property Taxes	266,271		266,271
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	14,126		14,126
Reserved for Encumbrances	62,608	6,530	69,138
Unreserved, Reported in:			
General Fund	3,045,013		3,045,013
Special Revenue Funds		5,809	5,809
Capital Projects Funds		20,736	20,736
Total Fund Balances	<u>3,456,382</u>	<u>33,075</u>	<u>3,489,457</u>
Total Liabilities and Fund Balances	<u>\$9,644,963</u>	<u>\$268,899</u>	<u>\$9,913,862</u>

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total Governmental Fund Balances	\$3,489,457
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,467,593
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$19,698	
Accrued Interest Receivable	10,761	
Intergovernmental Receivable	42,698	
Income Taxes Receivable	136,407	
Property Taxes Receivable	55,607	
		265,171

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(1,047,176)
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Net Assets of Governmental Activities	\$6,175,045
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See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues:			
Property Taxes	\$4,619,875		\$4,619,875
Income Taxes	1,860,260		1,860,260
Intergovernmental	9,155,470	\$1,474,111	10,629,581
Interest	254,106	196	254,302
Tuition and Fees	855,990		855,990
Extracurricular Activities		161,453	161,453
Charges for Services		362,470	362,470
Gifts and Donations		13,348	13,348
Miscellaneous	37,551	25,900	63,451
Total Revenues	<u>16,783,252</u>	<u>2,037,478</u>	<u>18,820,730</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,268,374	204,794	9,473,168
Special	1,407,539	466,637	1,874,176
Vocational	283,319		283,319
Support Services:			
Pupils	578,158	146,818	724,976
Instructional Staff	594,750	213,524	808,274
Board of Education	37,907		37,907
Administration	1,676,652	11,469	1,688,121
Fiscal	459,234		459,234
Operation and Maintenance of Plant	1,569,291		1,569,291
Pupil Transportation	661,323		661,323
Central	40,265	37	40,302
Non-Instructional Services		795,387	795,387
Extracurricular Activities		220,236	220,236
Total Expenditures	<u>16,576,812</u>	<u>2,058,902</u>	<u>18,635,714</u>
Excess of Revenues Over (Under) Expenditures	<u>206,440</u>	<u>(21,424)</u>	<u>185,016</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	831		831
Transfers In		57,896	57,896
Transfers Out	(57,896)		(57,896)
Total Other Financing Sources (Uses)	<u>(57,065)</u>	<u>57,896</u>	<u>831</u>
Changes in Fund Balances	149,375	36,472	185,847
Fund Balances (Deficit) at Beginning of Year	<u>3,307,007</u>	<u>(3,397)</u>	<u>3,303,610</u>
Fund Balances at End of Year	<u><u>\$3,456,382</u></u>	<u><u>\$33,075</u></u>	<u><u>\$3,489,457</u></u>

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Changes in Fund Balances - Total Governmental Funds \$185,847

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year:

Capital Outlay	\$167,423	
Capital Contributions	7,253	
Depreciation	<u>(328,154)</u>	
		(153,478)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets	<u>(445)</u>	
		(445)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	5,295	
Income Taxes	13,434	
Intergovernmental	37,687	
Interest	(5,346)	
Tuition and Fees	(34,470)	
Miscellaneous	<u>172</u>	
		16,772

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

15,962

Change in Net Assets of Governmental Activities	<u><u>\$64,658</u></u>
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See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues:				
Property Taxes	\$4,578,916	\$4,567,122	\$4,548,929	(\$18,193)
Income Taxes	1,613,000	1,698,698	1,698,369	(329)
Intergovernmental	8,439,578	9,136,936	9,155,324	18,388
Interest	90,000	180,000	180,462	462
Tuition and Fees	741,750	851,439	849,130	(2,309)
Miscellaneous	29,820	26,020	25,878	(142)
Total Revenues	<u>15,493,064</u>	<u>16,460,215</u>	<u>16,458,092</u>	<u>(2,123)</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,558,298	9,694,019	9,171,421	522,598
Special	1,485,589	1,504,744	1,423,902	80,842
Vocational	326,112	331,217	297,421	33,796
Support Services:				
Pupils	615,736	623,201	586,499	36,702
Instructional Staff	717,582	714,151	591,977	122,174
Board of Education	50,050	50,050	37,313	12,737
Administration	1,667,925	1,701,741	1,659,662	42,079
Fiscal	533,506	538,839	460,503	78,336
Operation and Maintenance of Plant	2,108,531	2,099,872	1,608,317	491,555
Pupil Transportation	875,028	875,028	670,816	204,212
Central	35,000	40,300	40,265	35
Total Expenditures	<u>17,973,357</u>	<u>18,173,162</u>	<u>16,548,096</u>	<u>1,625,066</u>
Excess of Revenues Under Expenditures	<u>(2,480,293)</u>	<u>(1,712,947)</u>	<u>(90,004)</u>	<u>1,622,943</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	9,600	5,276	7,270	1,994
Sale of Capital Assets	980	980	831	(149)
Advances In	200,000	95,554	95,554	
Advances Out	(200,000)	(187,724)	(71,911)	115,813
Transfers Out	(45,000)	(57,276)	(57,896)	(620)
Total Other Financing Sources (Uses)	<u>(34,420)</u>	<u>(143,190)</u>	<u>(26,152)</u>	<u>117,038</u>
Changes in Fund Balance	(2,514,713)	(1,856,137)	(116,156)	1,739,981
Fund Balance at Beginning of Year	4,195,755	4,195,755	4,195,755	
Prior Year Encumbrances Appropriated	217,851	217,851	217,851	
Fund Balance at End of Year	<u><u>\$1,898,893</u></u>	<u><u>\$2,557,469</u></u>	<u><u>\$4,297,450</u></u>	<u><u>\$1,739,981</u></u>

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$7,184</u>	<u>\$31,689</u>
Liabilities:		
Due to Students	<u> </u>	<u>\$31,689</u>
Net Assets:		
Scholarships	6,194	
Held in Trust for Students	<u>990</u>	
Total Net Assets	<u>\$7,184</u>	

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust
Additions:	
Gifts and Donations	\$6,650
Deductions:	
Non-Instructional Services	3,124
Change in Net Assets	3,526
Net Assets at Beginning of Year	3,658
Net Assets at End of Year	<u><u>\$7,184</u></u>

See accompanying notes to the basic financial statements.

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Kenton City School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1888. The School District serves an area of approximately one hundred twelve square miles. It is located in Hardin and Wyandot Counties and includes all of Pleasant Township, portions of Cessna, Dudley, Goshen, Lynn, McDonald, and Taylor Creek Townships, and the City of Kenton. The School District is the 263rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty classified employees, one hundred forty-five certified teaching personnel, and twenty-four administrative employees who provide services to 2,094 students and other community members. The School District currently operates eight instructional/support buildings.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Kenton City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Kenton City School District.

The School District participates in three jointly governed organizations and three insurance pools. These organizations are the Ohio Hi-Point Joint Vocational School, West Central Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Schools of Ohio Risk Sharing Authority, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Kenton City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, 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, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's only major fund is the General Fund.

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust funds (the only trust funds) account for programs that provide services to needy students and college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 School District, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

2. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred revenue.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures

On the accrual basis, 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 and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the object level within each function and fund.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the School District by the Hardin County Educational Service Center are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2007, investments included nonnegotiable certificates of deposit, federal agency securities, and mutual funds. Nonnegotiable certificates of deposit are reported at cost. All other investments are reported at fair value, which is based on quoted market price or current share price.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 was \$254,106, which includes \$5,770 assigned from other funds.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for budget stabilization, as well as unexpended revenues restricted for bus purchases.

J. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land, 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:

Description	Useful Lives
Land Improvements	10 - 50 years
Building and Building Improvements	13 - 75 years
Furniture and Fixtures	5 - 30 years
Equipment	5 - 30 years
Vehicles	10 - 15 years
Infrastructure	30 years

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants. As of June 30, 2007, there were no net assets restricted by enabling legislation.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, budget stabilization, bus purchase, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

O. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. CORRECTION OF AN ERROR AND RESTATEMENT OF NET ASSETS

In the prior fiscal year, the School District incorrectly recorded accumulated depreciation for governmental activities.

	Governmental Activities
Net Assets at June 30, 2006	\$5,519,097
Accumulated Depreciation	591,290
Restated Net Assets at June 30, 2006	<u>\$6,110,387</u>

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. ACCOUNTABILITY

At June 30, 2007, the following funds had deficit fund balances:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Special Revenue Funds	
Food Service	\$14,396
Poverty Based Assistance	6,767
Title VI-B	13,280
Title I	32,453
Drug Free	291
Title II-A	14,766

The deficit fund balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

Changes in Fund Balance	
GAAP Basis	\$149,375
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2006, Received in Cash FY 2007	774,648
Accrued FY 2007, Not Yet Received in Cash	(1,018,500)
Expenditure Accruals:	
Accrued FY 2006, Paid in Cash FY 2007	(1,957,048)
Accrued FY 2007, Not Yet Paid in Cash	2,057,704
Cash Adjustments:	
Unrecorded Activity FY 2006	41,823
Unrecorded Activity FY 2007	(115,861)
Prepaid Items	1,941
Advances In	95,554
Advances Out	(71,911)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(73,881)</u>
Budget Basis	<u><u>(\$116,156)</u></u>

6. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. The School District was not exposed to custodial credit risk since deposits were covered by the Federal Deposit Insurance Corporation and by collateral in which the School District has a "perfected security interest".

B. Investments

As of June 30, 2007, the School District had the following investments:

	Fair Value	Maturity
Federal Farm Credit Bank Bonds	\$224,419	8/13/07
Federal Home Loan Bank Notes	134,981	7/30/07
Federal Home Loan Bank Notes	184,965	9/20/07
Federal Home Loan Bank Notes	174,262	11/16/07
Federal Home Loan Mortgage Corporation Notes	144,913	10/24/07
Federal National Mortgage Association Notes	229,379	8/28/07
Federal National Mortgage Association Notes	179,879	9/14/07
Federal National Mortgage Association Notes	139,202	12/14/07
Federal National Mortgage Association Notes	199,300	1/15/08
Mutual Fund	4,561	72 days average
Total Investments	<u>\$1,615,861</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

The federal agency securities all carry a rating of AAA by Moodys. The mutual fund consists entirely of U.S. treasury bills and notes and is not rated. The School District has no investment policy dealing with credit risk beyond the requirements of State statute.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are not exposed to custodial credit risk since they are held by a third party in the name of the School District.

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of investments to the School District's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Farm Credit Bank Bonds	\$224,419	13.89 %
Federal Home Loan Mortgage Corporation Notes	144,913	8.97
Federal Home Loan Bank Notes	494,208	30.58
Federal National Mortgage Association Notes	747,760	46.28

7. RECEIVABLES

Receivables at June 30, 2007, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Ohio Department of Taxation	\$900
United States Treasury	4,334
Lucas County Educational Service Center	80
Ohio Educational Association	92
Hardin County Educational Service Center	2,315
Hardin Northern Local School District	1,135
Hardin County Juvenile Court	174
State of Ohio	20
JROTC	4,900
Total General Fund	<u>13,950</u>
Other Governmental Funds	
Food Service	\$56,483

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. RECEIVABLES (Continued)

CORE Implementation	22,388
Title I	19,868
Drug Free	853
Title II-D	1,569
Total Other Governmental Funds	101,161
Total Intergovernmental Receivables	<u>\$115,111</u>

8. INCOME TAXES

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1996, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

9. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. PROPERTY TAXES (Continued)

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2007, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007, was \$266,271 in the General Fund. The amount available as an advance at June 30, 2006, was \$195,325 in the General Fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$122,023,520	61.06%	\$122,696,760	63.26%
Industrial/Commercial	37,289,800	18.66	39,176,370	20.20
Public Utility	8,885,000	4.44	8,876,820	4.58
Tangible Personal	31,655,348	15.84	23,201,280	11.96
Total Assessed Value	<u>\$199,853,668</u>	<u>100.00%</u>	<u>\$193,951,230</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$34.20	

10. CAPITAL ASSETS

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

	Restated Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities				
Non-depreciable Capital Assets				
Land	\$638,639			\$638,639
Depreciable Capital Assets				
Land Improvements	866,885	\$16,031		882,916
Buildings and Building Improvements	4,671,323	9,790		4,681,113
Furniture and Fixtures	1,808,609	79,643	(\$3,700)	1,884,552
Equipment	143,050	11,692		154,742
Vehicles	1,074,129	57,520	(41,400)	1,090,249
Infrastructure	15,850			15,850
Total Depreciable Capital Assets	<u>8,579,846</u>	<u>174,676</u>	<u>(45,100)</u>	<u>8,709,422</u>

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. CAPITAL ASSETS (Continued)

Less Accumulated Depreciation

Land Improvements	(348,985)	(38,223)		(387,208)
Buildings and Building Improvements	(3,216,362)	(125,283)		(3,341,645)
Furniture and Fixtures	(1,297,212)	(99,737)	3,255	(1,393,694)
Equipment	(78,969)	(10,150)		(89,119)
Vehicles	(653,285)	(54,233)	41,400	(666,118)
Infrastructure	(2,156)	(528)		(2,684)
Total Accumulated Depreciation	<u>(5,596,969)</u>	<u>(328,154)</u>	<u>44,655</u>	<u>(5,880,468)</u>
Depreciable Capital Assets, Net	<u>2,982,877</u>	<u>(153,478)</u>	<u>(445)</u>	<u>2,828,954</u>
Governmental Activities				
Capital Assets, Net	<u><u>\$3,621,516</u></u>	<u><u>(\$153,478)</u></u>	<u><u>(\$445)</u></u>	<u><u>\$3,467,593</u></u>

The School District accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$7,253 during fiscal year 2007.

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$105,856
Special	9,227
Vocational	6,517

Support Services:

Pupils	10,297
Instructional Staff	19,485
Administration	12,457
Fiscal	5,338
Operation and Maintenance of Plant	55,842
Pupil Transportation	42,356
Non-Instructional Services	12,184
Extracurricular Activities	48,595
Total Depreciation Expense	<u><u>\$328,154</u></u>

11. RISK MANAGEMENT

The School 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. During fiscal year 2007, the School District contracted for the following insurance coverage.

Coverage provided by the Schools of Ohio Risk Sharing Authority is as follows:

Property	\$55,181,740
General Liability	
Per Occurrence	2,000,000
Aggregate	4,000,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
Errors and Omissions	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. RISK MANAGEMENT (Continued)

For fiscal year 2007, the School District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust), a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The School District pays monthly premiums to the Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

12. PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. PENSION PLANS (Continued)

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005 was \$1,063,012, \$1,051,845, and \$1,029,549, respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$27,142 made by the School District and \$34,112 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 was \$226,347, \$214,914, and \$208,347, respectively; 51 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2007, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$83,858.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000, and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$102,303 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 59,492 participants currently receiving health care benefits.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, except for the superintendent and treasurer, do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at a rate of one an one-fourth days per month. Sick leave may be accumulated up to two hundred five days for all employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, not to exceed thirty-eight days for classified employees. All teachers and administrative staff will be paid one-fourth of the of the total sick leave accumulation, not to exceed forty days with five years of service, forty-one days with ten years of service, forty-two days with twenty years of service , and forty-three days with thirty years of service. In addition all employees will be paid for a maximum of five days for sick leave accumulated beyond one hundred ninety-nine days. Payment is based upon the employee's salary at the time of retirement.

B. Health Care Benefits

The School District offers medical, dental, vision, and life insurance benefits to most employees through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

15. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
Compensated Absences Payable	\$1,063,138	\$0	\$15,962	\$1,047,176	\$94,696

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

The School District's overall debt margin was \$14,574,118 with an unvoted debt margin of \$161,935 at June 30, 2007.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

16. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2007.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2006	(\$727,641)		\$68,364
Current Year Set Aside Requirement	316,462	\$316,462	
Qualifying Expenditures	(430,115)	(346,526)	
Balance Carried Forward to Fiscal Year 2008	(\$841,294)	\$0	\$68,364
Set Aside Reserve Balance June 30, 2007	<u>\$0</u>	<u>\$0</u>	<u>\$68,364</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

17. INTERFUND TRANSFERS

During fiscal year 2007, the General Fund made transfers to other governmental funds, in the amount of \$57,896, to subsidize various programs in other funds.

18. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Joint Vocational School

The Ohio Hi-Point Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the eleven participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Ohio Hi-Point Joint Vocational School, 2280 State Route 540, Bellefontaine, Ohio 43311.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent of the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Ave, Suite 2, Wapakoneta, Ohio 45895.

19. INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Hardin County School Employees' Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust) is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

19. INSURANCE POOLS (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 T.R. 50, Dola, Ohio 45835.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

20. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

The School District is currently a defendant in litigation regarding a school bus and motorcycle accident. During the time of the accident, the School District was covered by Selective Insurance for its automobile insurance. Coverage for automobile liability is sufficient to satisfy all claims, however the likelihood of an unfavorable outcome is remote. A trial date has been set for September 14, 2008.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture (Passed through Ohio Department of Education)						
Food Donation	N/A	10.550		\$14,436		\$14,436
Nutrition Cluster:						
School Breakfast Program	05-PU-06 05-PU-07	10.553	\$8,330 53,634		\$8,330 53,634	
			61,964		61,964	
National School Lunch Program	LL-P4-06 LL-P4-07	10.555	37,914 210,589		37,914 210,589	
			248,503		248,503	
Total Nutrition Cluster:			310,467		310,467	
Fresh Fruit and Vegetable Program	VG-S1-06	10.582	3,438		3,438	
Total U.S. Department of Agriculture			313,905	14,436	313,905	14,436
U.S. Department of Education (Passed through Ohio Department of Education)						
Title I Grants to Local Educational Agencies	C1-S1-06 C1-S1-07	84.010	(7,394) 368,768		352,803	
Total Title I Grants to Local Educational Agencies			361,374		352,803	
Special Education Grants to States	6B-SF-06 6B-SF-07	84.027	(6,225) 475,875		447,921	
Total Special Education Grants to States			469,650		447,921	
Safe and Drug-Free Schools and Communities State Grants	DR-S1-06 DR-S1-07	84.186	(936) 9,855		9,736	
Total Safe and Drug-Free Schools and Communities State Grants			8,919		9,736	
State Grants for Innovative Programs	C2-S1-07	84.298	2,887		2,887	
Education Technology State Grants	TJ-S1-06 TJ-S1-07	84.318	(1,305) 5,448		4,746	
Total Education Technology State Grants			4,143		4,746	
Improving Teacher Quality State Grants	TR-S1-06 TR-S1-07	84.367	23,643 133,075		133,075	
Total Improving Teacher Quality State Grants			156,718		133,075	
Total U.S. Department of Education			1,003,691		951,168	
Total Federal Financial Assistance			<u>\$1,317,596</u>	<u>\$14,436</u>	<u>\$1,265,073</u>	<u>\$14,436</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - FOOD DONATION PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - TRANSFER OF FUNDS BETWEEN COST CENTERS

The following transfers between grant years were approved by the Ohio Department of Education. The School District accounting records distinguish between different grant years by using a different cost centers. The approved transfers allow unspent grant monies to be carried forward into the next grant period.

Grant and CFDA # / Fund, Cost Center	Transfer out	Transfer in
Title 1, Grants to Local Educational Agencies # 84.010		
572-2006	\$(7,394)	
572-2007		\$7,394
Special Education Grants to States # 84.027		
516-2006	(6,225)	
516-2007		6,225
Safe and Drug-Free Schools and Communities State Grants #84.186		
584-2006	(936)	
584-2007		936
Improving Teacher Quality State Grants #84.367		
590-2006	(10,137)	
590-2007		10,137
Education Technology State Grants # 84.318		
599-2006	(1,305)	
599-2007		1,305



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, (the School District), as of and for the fiscal year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 10, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 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 School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Government's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the School District's management in a separate letter dated April 10, 2008.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the School District's management in a separate letter dated April 10, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid.

Mary Taylor, CPA
Auditor of State

April 10, 2008



Mary Taylor, CPA

Auditor of State

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

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

Compliance

We have audited the compliance of Kenton City School District, Hardin County, (the 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 apply to each of its major federal programs for the fiscal year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Government's compliance with those requirements.

As described in finding 2007-001 in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principals applying to its Title 1 Grants to Local Education Agencies. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Kenton City School District, Hardin County, complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the fiscal year ended June 30, 2007.

The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2007-002. In a separate letter to the School District's management dated April 10, 2008, we reported a matter related to federal noncompliance not requiring inclusion in this report.

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Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Internal Control over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect 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 the 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 School District'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 significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2007-001 and 2007-002 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2007-001 described in the accompanying schedule of findings and questioned costs to be a material weakness. We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated April 10, 2008.

The School District's responses to the finding we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 10, 2008

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA #84.010 Grants to Local Education Agencies CFDA # 10.553, 10.555 Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2007-001
CFDA Title and Number	Title 1 Grants to Local Educational Agencies
Federal Award Number / Year	044172-C1S1-07
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Material Weakness

Activities Allowed or Unallowed and Allowable Costs/Cost Principals – Questioned Costs

34 CFR Subpart C, Section 80.22(a) (1) states, in part, that grant funds may be used only for the allowable costs of the grantees. **OMB Circular A-87, Attachment B, Selected Items of Cost, Section 11 - Compensation for Personnel Services, Part d Fringe Benefits, paragraph (5)** states, in part, that the cost of fringe benefits in the form of employer contributions for employee health insurance and pension plan costs are allowable and shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

The following violations of these requirements were identified for the Title 1 Grants to Local Educational Agencies federal program:

- 1) STRS employer contributions charged to this grant that were \$530.83 greater than the required contributions for eligible employees;
- 2) The insurance benefits of one employee were charged to this grant at the family rate even though the employee participated in the single plan. This resulted in an overcharge of \$8,207.79 to the grant;
- 3) The fringe benefits for one employee were allocated 100% to this grant even though the actual wages were allocated at 50%. This resulted in an overcharge of \$7,334.96 to this grant;
- 4) A payment of \$2,131.96 for SERS surcharge that pertained to the fiscal year 2006 wages of teacher aides was charged to this grant.

Based on the facts documented above, questioned costs in the amount of \$18,205.54 are being issued. The questioned expenditures represent 5.2% of the Title 1 Grants to Local Educational Agencies expenditures.

The School District should implement review procedures to help assure that benefits are allocated to grants in proportion to the wages being paid and that they pertain to the employees of the applicable grant year.

OFFICIALS' RESPONSE:

On the single vs. family insurance coverage over sight, the employee did have a family policy then switched at open enrollment due to a non eligible dependent and was not caught as we moved forward with the project. On the different percentage of salary payment vs. benefits this employee had been at 100% the prior project year and since there was not enough money to cover everything I chose to pay half salary because this would automatically be done. The payment of \$2,131.96 is for SERS surcharge which is always bill a year in arrears and these charges were to benefits for persons in the project for the prior year as well as the current year.

**Finding 2007-001
(Continued)**

I searched the internet for the 34 CFR with no success and I also contacted Mr. Steve Shaw at the Ohio Dept. of Education which I also asked to find in writing where it said I could not charge benefits at a difference percentages as salaries if not enough money was available for the project. Our negotiated agreement allows full benefits for teaching at least half time. The SERS surcharge has been charge a year in arrears since it existed back in the 80's and can only be charged after the fact as BWC charges. I will follow all the rules I am aware of, but the percentage of benefits that are a legal expenditure as well as the surcharge benefit not a salary expense as listed I just do not agree with.

Auditor of State's Conclusion: Since benefits are to be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities, only those benefits charged in proportion to the salaries and wages chargeable to the grant are allowed. Since the funding period is specified, allowable costs are those in which obligations incurred during the funding period.

Finding Number	2007-002
CFDA Title and Number	Title 1 Grants to Local Educational Agencies
Federal Award Number / Year	044172-C1S1-07
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

Period of Availability

34 CFR Subpart C, Section 80.23 (a) states that where a funding period is specified, a recipient must charge to the grant only allowable costs resulting from obligations incurred during the funding period.

The School District recorded a payment of \$2,131.96 to the 2007 Title I grant which was for the SERS surcharge on fiscal year 2006 wages from aides working on the 2006 Title I Grants to Local Educational Agencies program.

The School District should review expenditures to help assure they are being charged to the correct grant year.

OFFICIALS' RESPONSE:

It is impossible to charge the SERS surcharge benefits to the year they are incurred since they are paid in November following the close of the fiscal year June 30, 2006. These are just like BWC payments and are legal expenses for the project and should be allowed when the payment is due and paid regardless of the grant year.

Auditor of State's Conclusion: Since the funding period is specified, allowable costs are those in which obligations incurred during the funding period.



Mary Taylor, CPA
Auditor of State

KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 6, 2008**