



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, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County (the School District) as of and for the fiscal year ended June 30, 2006, 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, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, as of June 30, 2006, and the change in financial position thereof and the budgetary comparison for the 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 June 14, 2007, 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's 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 requires. 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.

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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The federal awards receipts and expenditure schedule 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 federal awards expenditure schedule 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 signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 14, 2007

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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 2006 are as follows:

- In total, net assets decreased \$17,557, or less than 1 percent, not a significant change.
- For fiscal year 2006, general revenues were \$14,674,105, 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 Kenton City 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 Kenton City 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 2006. 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, 2006
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 2006 compared to fiscal year 2005:

**Table 1
Net Assets**

	Governmental Activities	
	2006	2005
Assets:		
Current and Other Assets	\$9,862,911	\$9,860,926
Capital Assets, Net	3,030,226	3,007,421
Total Assets	12,893,137	12,868,347
Liabilities:		
Current and Other Liabilities	6,310,902	6,212,345
Long-Term Liabilities	1,063,138	1,119,348
Total Liabilities	7,374,040	7,331,693
Net Assets:		
Invested in Capital Assets	\$3,030,226	\$3,007,421
Restricted	199,204	242,573
Unrestricted	2,289,667	2,286,660
Total Net Assets	\$5,519,097	\$5,536,654

A review of the above table reflects that there was very little change from fiscal year 2005 to fiscal year 2006.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 and 2005.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Revenues:		
Program Revenues		
Charges for Services	\$756,290	\$692,924
Operating Grants, Contributions, and Interest	2,646,607	2,738,091
Capital Grants and Contributions	8,329	12,912
Total Program Revenues	<u>3,411,226</u>	<u>3,443,927</u>
General Revenues		
Property Taxes	4,505,808	4,397,406
Income Taxes	1,682,025	1,639,398
Grants and Entitlements	8,129,915	7,765,154
Interest	204,157	96,793
Miscellaneous	152,200	61,326
Total General Revenues	<u>14,674,105</u>	<u>13,960,077</u>
Total Revenues	<u>18,085,331</u>	<u>17,404,004</u>
Expenses:		
Instruction:		
Regular	\$9,045,662	\$8,489,606
Special	1,910,566	2,028,947
Vocational	336,647	329,157
Support Services:		
Pupils	807,131	765,113
Instructional Staff	784,865	732,612
Board of Education	36,434	32,422
Administration	1,507,180	1,504,718
Fiscal	427,974	444,988
Operation and Maintenance of Plant	1,495,970	1,634,488
Pupil Transportation	689,839	626,309
Central	14,731	366
Non-Instructional Services	806,386	760,316
Extracurricular Activities	239,503	262,798
Total Expenses	<u>18,102,888</u>	<u>17,611,840</u>
Decrease in Net Assets	(17,557)	(207,836)
Net Assets at Beginning of Year	5,536,654	5,744,490
Net Assets at End of Year	<u>\$5,519,097</u>	<u>\$5,536,654</u>

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 fiscal year 2006, compared to 20 percent in fiscal year 2005. Operating grants and contributions decreased \$91,484 due to lower amounts received for Ohio Reads, and Student Intervention.

As previously mentioned, general revenues were 81 of total revenues for fiscal year 2006 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, 2006
UNAUDITED
(Continued)**

As should be expected, instruction costs represent the largest of the School District's expenses, just over 62 percent for fiscal year 2006. Instruction expenses (as well as instructional staff expenses) increased slightly from the prior fiscal year, primarily due to a 3 percent salary increase and step increases. In addition, the School District pays for 90 percent of employee medical insurance and these premiums increased 18 percent for fiscal year 2006. Other program expenses remained fairly comparable to fiscal year 2005.

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	
	2006	2005	2006	2005
Instruction:				
Regular	\$9,045,662	\$8,489,606	\$8,084,433	\$7,460,917
Special	1,910,566	2,028,947	547,046	657,038
Vocational	336,647	329,157	289,688	279,228
Support Services:				
Pupils	807,131	765,113	796,955	755,371
Instructional Staff	784,865	732,612	784,865	732,612
Board of Education	36,434	32,422	36,434	32,422
Administration	1,507,180	1,504,718	1,507,180	1,504,718
Fiscal	427,974	444,988	427,974	444,988
Operation and Maintenance of Plant	1,495,970	1,634,488	1,495,970	1,634,488
Pupil Transportation	689,839	626,309	611,846	531,936
Central	14,731	366	14,731	366
Non-Instructional Services	806,386	760,316	48,395	44,716
Extracurricular Activities	239,503	262,798	46,145	89,113
Total Expenses	\$18,102,888	\$17,611,840	\$14,691,662	\$14,167,913

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. While expenditures exceeded revenues for the General Fund, the primary reason for the decrease in the General Fund's fund balance is related to transfers to subsidize operations of activities recorded in other funds of the School District.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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 2006, the School District amended its General Fund budget as needed. For revenues, the changes from the original budget to the final budget as well as from the final budget to actual revenues received were not significant. While the changes from the original budget to the final budget for expenditures were minor, actual expenditures for all programs were less than those budgeted. Part of this improvement is due to budgeting for salaries for the entire contract year, which is through August, but actual expenditures are only through June. In fiscal year 2005, the School District replaced a concession/restroom facility, the costs of which were reflected in operation and maintenance expenses. There were not similar expenditures in fiscal year 2006.

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2006, the School District had \$3,030,226 invested in capital assets (net of accumulated depreciation), an increase of \$22,805, or less than 1 percent. Additions to capital assets included routine computer and computer related purchases, mechanical equipment, football field lighting, tennis court improvements, two buses, and a pickup truck. Disposals for the fiscal year included some computer and related equipment, mechanical equipment, food service equipment, two buses, and a van. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt - At June 30, 2006, 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, along with a small strip mall containing six additional retail stores. One additional food retailer, Arby's, has already 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 did place an additional .75 percent income tax on the ballot in May for operations; however, it did not pass.

The School District has a need for additional revenue to continue to operate at current levels through fiscal year 2009. With an income tax levy not taking effect until January 1 of the year following passage, it is critical to the School District a levy be passed no later than 2007. Without passage in May 2007, the Board will have to implement reductions in expenditures to insure solvency through fiscal year 2008 and beyond.

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 6 percent increase over the prior year. This increase was the result of the county-wide reappraisal. Since the School District is at the minimum 20 mill floor, the increase in value did 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, 2006
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. A change in leadership at the State level may be what is needed to correct the school funding issue. Our Board of Education is still planning to put an operating levy in front of the taxpayers at each election and will be looking at cutting existing expenditures until financial security can be obtained by the School District.

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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,627,957
Cash and Cash Equivalents with Fiscal Agent	738
Accounts Receivable	41,632
Accrued Interest Receivable	29,465
Intergovernmental Receivable	64,768
Income Taxes Receivable	678,913
Prepaid Items	18,088
Inventory Held for Resale	4,322
Materials and Supplies Inventory	4,016
Property Taxes Receivable	4,393,012
Nondepreciable Capital Assets	638,639
Depreciable Capital Assets, Net	2,391,587
Total Assets	12,893,137
Liabilities:	
Accounts Payable	38,566
Accrued Wages and Benefits Payable	1,676,672
Matured Compensated Absences Payable	11,968
Intergovernmental Payable	436,321
Deferred Revenue	4,147,375
Long-Term Liabilities:	
Due Within One Year	58,742
Due in More Than One Year	1,004,396
Total Liabilities	7,374,040
Net Assets:	
Invested in Capital Assets	3,030,226
Restricted For:	
Set Asides	68,364
Other Purposes	130,840
Unrestricted	2,289,667
Total Net Assets	\$5,519,097

See accompanying notes to basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$9,045,662	\$147,526	\$813,703		(\$8,084,433)
Special	1,910,566		1,363,520		(547,046)
Vocational	336,647		46,959		(289,688)
Support Services:					
Pupils	807,131		7,176	\$3,000	(796,955)
Instructional Staff	784,865				(784,865)
Board of Education	36,434				(36,434)
Administration	1,507,180				(1,507,180)
Fiscal	427,974				(427,974)
Operation and Maintenance of Plant	1,495,970				(1,495,970)
Pupil Transportation	689,839	51,607	21,057	5,329	(611,846)
Central	14,731				(14,731)
Non-Instructional Services	806,386	366,106	391,885		(48,395)
Extracurricular Activities	239,503	191,051	2,307		(46,145)
Total Governmental Activities	<u>\$18,102,888</u>	<u>\$756,290</u>	<u>\$2,646,607</u>	<u>\$8,329</u>	<u>(14,691,662)</u>
General Revenues:					
					4,505,808
					1,682,025
					8,129,915
					204,157
					152,200
					<u>14,674,105</u>
					(17,557)
					<u>5,536,654</u>
					<u>\$5,519,097</u>

See accompanying notes to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Other Governmental	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,381,736	\$172,528	\$4,554,264
Cash and Cash Equivalents with Fiscal Agent		738	738
Accounts Receivable	41,482	150	41,632
Accrued Interest Receivable	29,445	20	29,465
Interfund Receivable	23,643		23,643
Intergovernmental Receivable	22,604	42,164	64,768
Income Taxes Receivable	678,913		678,913
Prepaid Items	10,335	7,753	18,088
Inventory Held for Resale		4,322	4,322
Materials and Supplies Inventory		4,016	4,016
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	73,693		73,693
Property Taxes Receivable	4,393,012		4,393,012
Total Assets	9,654,863	231,691	9,886,554
 Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	\$31,338	\$7,228	\$38,566
Accrued Wages and Benefits Payable	1,512,323	164,349	1,676,672
Matured Compensated Absences Payable	11,968		11,968
Interfund Payable		23,643	23,643
Intergovernmental Payable	401,419	34,902	436,321
Deferred Revenue	4,390,808	4,966	4,395,774
Total Liabilities	6,347,856	235,088	6,582,944
 Fund Balances:			
Reserved for Property Taxes	195,325		195,325
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	5,329		5,329
Reserved for Encumbrances	187,487	13,552	201,039
Unreserved, Reported in:			
General Fund	2,850,502		2,850,502
Special Revenue Funds (Deficit)		(16,949)	(16,949)
Total Fund Balances	3,307,007	(3,397)	3,303,610
 Total Liabilities and Fund Balances	\$9,654,863	\$231,691	\$9,886,554

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, 2006**

Total Governmental Fund Balances		\$3,303,610
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.		3,030,226
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	53,996	
Accrued Interest Receivable	16,107	
Intergovernmental Receivable	5,011	
Income Taxes Receivable	122,973	
Property Taxes Receivable	<u>50,312</u>	
Total		248,399
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(1,063,138)</u>
Net Assets of Governmental Activities		<u><u>\$5,519,097</u></u>

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, 2006**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues:			
Property Taxes	\$4,537,170		\$4,537,170
Income Taxes	1,673,015		1,673,015
Intergovernmental	8,729,007	\$1,531,982	10,260,989
Interest	189,528	234	189,762
Tuition and Fees	709,389		709,389
Extracurricular Activities		191,051	191,051
Charges for Services		366,106	366,106
Gifts and Donations		2,305	2,305
Miscellaneous	111,589	37,097	148,686
Total Revenues	<u>15,949,698</u>	<u>2,128,775</u>	<u>18,078,473</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,694,279	238,597	8,932,876
Special	1,371,915	553,000	1,924,915
Vocational	345,543		345,543
Support Services:			
Pupils	637,785	167,654	805,439
Instructional Staff	546,103	227,646	773,749
Board of Education	36,434		36,434
Administration	1,506,421	3,452	1,509,873
Fiscal	422,432		422,432
Operation and Maintenance of Plant	1,640,168		1,640,168
Pupil Transportation	758,231		758,231
Central	14,731		14,731
Non-Instructional Services		799,400	799,400
Extracurricular Activities		213,712	213,712
Total Expenditures	<u>15,974,042</u>	<u>2,203,461</u>	<u>18,177,503</u>
Excess of Revenues (Under) Expenditures	<u>(24,344)</u>	<u>(74,686)</u>	<u>(99,030)</u>
Other Financing Sources (Uses):			
Transfers In		67,553	67,553
Transfers Out	(67,553)		(67,553)
Total Other Financing Sources (Uses)	<u>(67,553)</u>	<u>67,553</u>	
Changes in Fund Balances	(91,897)	(7,133)	(99,030)
Fund Balances at Beginning of Year	<u>3,398,904</u>	<u>3,736</u>	<u>3,402,640</u>
Fund Balances at End of Year	<u><u>\$3,307,007</u></u>	<u><u>(\$3,397)</u></u>	<u><u>\$3,303,610</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, 2006**

Changes in Fund Balances - Total Governmental Funds (\$99,030)

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 exceeds capital outlay in the current year:

Capital Outlay - Nondepreciable Capital Assets	\$157,633	
Capital Outlay - Depreciable Capital Assets	200,361	
Depreciation	<u>(321,951)</u>	36,043

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.

Gain on Disposal of Capital Assets	4,400	
Loss on Disposal of Capital Assets	<u>(17,638)</u>	(13,238)

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

Property Taxes	(31,362)	
Income Taxes	9,010	
Intergovernmental	(28,201)	
Interest	14,637	
Tuition and Fees	39,260	
Miscellaneous	<u>(886)</u>	2,458

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.

Compensated Absences Payable		<u>56,210</u>
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Change in Net Assets of Governmental Activities (\$17,557)

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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$4,578,916	\$4,630,442	\$4,575,423	(\$55,019)
Income Taxes	1,613,000	1,669,202	1,669,202	
Intergovernmental	8,439,578	8,687,078	8,728,836	41,758
Interest	90,000	141,739	137,971	(3,768)
Tuition and Fees	731,900	710,981	719,532	8,551
Miscellaneous	32,291	50,491	55,718	5,227
Total Revenues	<u>15,485,685</u>	<u>15,889,933</u>	<u>15,886,682</u>	<u>(3,251)</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,329,688	9,293,029	8,671,114	621,915
Special	1,499,125	1,463,026	1,364,208	98,818
Vocational	333,499	348,106	344,187	3,919
Support Services:				
Pupils	662,113	696,750	642,427	54,323
Instructional Staff	656,378	668,910	540,850	128,060
Board of Education	52,000	52,000	36,983	15,017
Administration	1,635,905	1,640,090	1,503,638	136,452
Fiscal	523,264	523,709	431,935	91,774
Operation and Maintenance of Plant	2,342,339	2,306,131	1,756,473	549,658
Pupil Transportation	826,979	878,839	819,413	59,426
Central	35,000	35,000	14,731	20,269
Total Expenditures	<u>17,896,290</u>	<u>17,905,590</u>	<u>16,125,959</u>	<u>1,779,631</u>
Revenues Under Expenditures	<u>(2,410,605)</u>	<u>(2,015,657)</u>	<u>(239,277)</u>	<u>1,776,380</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	9,600	73,600	59,122	(14,478)
Refund of Prior Year Receipts		(14,087)	(14,087)	
Other Financing Sources	1,000	1,000	130	(870)
Advances In	197,509	277,509	331,908	54,399
Advances Out	(170,000)	(250,000)	(218,355)	31,645
Transfers Out	(30,000)	(67,553)	(67,553)	
Total Other Financing Sources (Uses)	<u>8,109</u>	<u>20,469</u>	<u>91,165</u>	<u>70,696</u>
Changes in Fund Balance	(2,402,496)	(1,995,188)	(148,112)	1,847,076
Fund Balance at Beginning of Year	3,957,789	3,957,789	3,957,789	
Prior Year Encumbrances Appropriated	<u>386,078</u>	<u>386,078</u>	<u>386,078</u>	
Fund Balance at End of Year	<u><u>\$1,941,371</u></u>	<u><u>\$2,348,679</u></u>	<u><u>\$4,195,755</u></u>	<u><u>\$1,847,076</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, 2006**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$3,658	\$35,659
Liabilities:		
Due to Students		\$35,659
Net Assets:		
Scholarships	3,454	
Held in Trust for Students	204	
Total Net Assets	\$3,658	

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, 2006**

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Donations	<u>\$5,114</u>
Deductions:	
Non-Instructional Services	456
Extracurricular Activities	<u>18,065</u>
Total Deductions	<u>18,521</u>
Change in Net Assets	(13,407)
Net Assets at Beginning of Year	<u>17,065</u>
Net Assets at End of Year	<u><u>\$3,658</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, 2006**

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 seventy-eight classified employees, one hundred forty-nine 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 19 and 20 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, 2006
(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.

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.

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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. The School District does not have pension or investment trust funds.

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, 2006
(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 has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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, 2006
(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 appropriation 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 appropriation 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 2006, investments included nonnegotiable certificates of deposit, U.S. treasury bonds, 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2006 was \$189,528, which includes \$8,871 assigned from other School District funds.

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, 2006, 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 the 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 and construction in progress, 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:

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	15 - 30 years
Building and Building Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Equipment	5 - 20 years
Vehicles	5 - 15 years
Infrastructure	30 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

L. 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.

M. 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 year.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation 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 restricted to expenditure for specified purposes. As of June 30, 2006, 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.

O. 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 that were previously required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

P. Interfund Transactions

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

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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

R. 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This statement establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

4. ACCOUNTABILITY

At June 30, 2006, the Food Service, Idea B, Title I, and Title VI-R special revenue funds had deficit fund balances, in the amount of \$32,160, \$39,204, \$48,010, and \$7,768, respectively, resulting 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:

Changes in Fund Balance	
GAAP Basis	(\$ 91,897)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	815,507
Accrued FY 2006, Not Yet Received in Cash	(774,648)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,923,565)
Accrued FY 2006, Not Yet Paid in Cash	1,957,048
Cash Adjustments:	
Unrecorded Activity FY 2005	(2,800)
Unrecorded Activity FY 2006	(41,823)
Prepaid Items	18,364
Advances In	331,908
Advances Out	(218,355)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(217,851)</u>
Budget Basis	<u><u>(\$ 148,112)</u></u>

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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 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. 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;
3. 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;
4. 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;
5. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
6. Bonds and other obligations of the State of Ohio or Ohio local governments;
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
8. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations; provided that investments in securities described in this division are made only through eligible institutions;

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

9. The State Treasurer's investment pool (STAR Ohio); and
10. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,123,061 of the School District's bank balance of \$3,225,061 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

B. Investments

As of June 30, 2006, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Bonds	\$203,206	10/31/06
Federal Farm Credit Bank Bonds	219,154	8/13/07
Federal Home Loan Mortgage Corporation Notes	149,856	7/14/06
Federal Home Loan Mortgage Corporation Notes	182,595	12/4/06
Federal Home Loan Mortgage Corporation Notes	123,413	1/5/07
Federal Home Loan Mortgage Corporation Notes	143,666	4/5/07
Federal Home Loan Bank Bonds	174,821	7/21/06
Federal National Mortgage Association Notes	108,899	11/15/06
Federal National Mortgage Association Notes	224,888	8/28/07
Money Market Mutual Fund	11,325	66 days
		average
Total Investments	<u>\$1,541,823</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, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

The federal agency securities all carry a rating of AAA by Moodys. The money market mutual fund consists entirely of U.S. treasury bills and notes. 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 exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

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:

	Fair Value	Percentage of Portfolio
U.S. Treasury Bonds	\$203,206	13.18%
Federal Farm Credit Bank Bonds	219,154	14.21
Federal Home Loan Mortgage Corporation Notes	599,530	38.88
Federal Home Loan Bank Bonds	174,821	11.34
Federal National Mortgage Association Notes	333,787	21.65

7. RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, 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 are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
JROTC	\$4,754
State of Ohio	646
Xenia Community School	17,030
Hardin County Juvenile Court	174
Total General Fund	22,604
Other Governmental Funds	
Food Service	\$3,438
Title II-A	36,980
Title II-D	1,746
Total Other Governmental Funds	42,164
Total Intergovernmental Receivables	\$64,768

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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 are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

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 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 during calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received during calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, 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 during calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received during calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently 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 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, 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, 2006, was \$195,325 in the General Fund. The amount available as an advance at June 30, 2005, was \$233,578 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 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$110,560,140	57.16%	\$122,023,520	61.06%
Industrial/Commercial	35,446,900	18.32	37,289,800	18.66
Public Utility	9,305,380	4.81	8,885,000	4.44
Tangible Personal	38,120,897	19.71	31,655,348	15.84
Total Assessed Value	<u>\$193,433,317</u>	<u>100.00%</u>	<u>\$199,853,668</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, 2006, was as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Non-depreciable Capital Assets				
Land	\$ 638,639			\$ 638,639
Construction in Progress	50,252	\$157,633	(\$207,885)	
Total Non-depreciable Capital Assets	<u>688,891</u>	<u>157,633</u>	<u>(207,885)</u>	<u>638,639</u>
Depreciable Capital Assets				
Land Improvements	694,361	220,045	(47,521)	866,885
Buildings and Building Improvements *	4,671,323	0	0	4,671,323
Furniture and Fixtures *	1,786,424	41,738	(19,553)	1,808,609
Equipment	153,965	16,007	(26,922)	143,050
Vehicles	1,005,558	134,856	(66,285)	1,074,129
Infrastructure	15,850	0	0	15,850
Total Depreciable Capital Assets	<u>8,327,481</u>	<u>412,646</u>	<u>(160,281)</u>	<u>8,579,846</u>

(Continued)

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. CAPITAL ASSETS (Continued)

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Less Accumulated Depreciation				
Land Improvements *	(348,278)	(36,592)	35,885	(348,985)
Buildings and Building Improvements *	(3,724,057)	(83,595)	0	(3,807,652)
Furniture and Fixtures *	(1,179,737)	(136,206)	18,731	(1,297,212)
Equipment	(89,431)	(11,280)	21,742	(78,969)
Vehicles	(665,820)	(53,750)	66,285	(653,285)
Infrastructure	(1,628)	(528)	0	(2,156)
Total Accumulated Depreciation	<u>(6,008,951)</u>	<u>(321,951)</u>	<u>142,643</u>	<u>(6,188,259)</u>
Depreciable Capital Assets, Net	<u>2,318,530</u>	<u>90,695</u>	<u>(17,638)</u>	<u>2,391,587</u>
Governmental Activities Capital Assets, Net	<u>\$3,007,421</u>	<u>\$248,328</u>	<u>(\$225,523)</u>	<u>\$3,030,226</u>

*These values have been restated from the prior period to include buildings and related depreciation not previously reported along with a classification error. However, the total value of net assets at 6/30/05 did not change.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$127,753
Special	5,523
Vocational	3,018
Support Services:	
Pupils	9,789
Instructional Staff	13,860
Administration	11,933
Fiscal	7,557
Operation and Maintenance of Plant	58,738
Pupil Transportation	41,405
Non-Instructional Services	11,022
Extracurricular Activities	31,353
Total Depreciation Expense	<u>\$321,951</u>

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2006, the General Fund had an interfund receivable from other governmental funds, in the amount of \$23,643, to provide cash flow resources until the receipt of grant monies.

12. 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 2006, the School District contracted for the following insurance coverage.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. RISK MANAGEMENT (Continued)

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

Property	\$46,927,169
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Coverage provided by the Ohio School Plan is as follows:

General Liability	
Per Occurrence	2,000,000
Aggregate	4,000,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000

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.

For fiscal year 2006, the School District participated in the Schools of Ohio Risk Sharing Authority (SORSA), 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 2006, 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. 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.

13. 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. PENSION PLANS (Continued)

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.

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, 2006, 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. 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, 2006, 2005, and 2004 was \$1,051,845, \$1,029,549, and \$1,018,397, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$15,572 made by the School District and \$19,087 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, 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 2006 was 14 percent of annual covered payroll; 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, 2006, 2005, and 2004 was \$214,914, \$208,347, and \$175,154, respectively; 50 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

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, 2006, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. 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 2006, 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 \$82,109.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information available). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. 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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$100,085 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.

15. 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 and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred ninety-nine days for teachers, twelve days beyond the contract year for administrators, and two hundred five days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of forty days for teachers and administrators and thirty-eight days for classified employees. In addition to the forty or thirty-eight day pay out, all employees are eligible to be paid one day for each day over the one hundred ninety-nine day maximum up to five days.

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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
Compensated Absences Payable	\$1,119,348	\$29,321	\$85,531	\$1,063,138	\$58,742

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

The School District's overall debt margin was \$17,986,830 with an unvoted debt margin of \$199,854 at June 30, 2006.

17. 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, 2006, 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 2006.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2005	(\$591,596)	\$ 0	\$68,364
Current Year Set Aside Requirement	306,297	306,297	0
Qualifying Expenditures	(442,342)	(306,297)	0
Balance Carried Forward to Fiscal Year 2007	(\$727,641)	\$ 0	\$68,364
Set Aside Reserve Balance June 30, 2006	<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.

18. INTERFUND TRANSFERS

During fiscal year 2006, the General Fund made transfers to other governmental funds, in the amount of \$67,553, to subsidize various programs in other funds.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

19. 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, Eric Adelsberger, Treasurer, 2280 State Route 540, Bellefontaine, Ohio 43311.

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.

20. 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. SORSA's business and affairs are conducted by a fifteen member board consisting of nine superintendents and treasurers, as well as an attorney, account, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

20. INSURANCE POOLS (Continued)

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.

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.

21. 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, 2006.

B. Litigation

1. The School District is currently a defendant in litigation regarding a school bus and motorcycle accident. Coverage for automobile liability is sufficient to satisfy all claims, however, the likelihood of an unfavorable outcome is remote. This trial is scheduled for September 17, 2007.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

21. CONTINGENCIES (Continued)

2. A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, the Corporation may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$27,075 per year. A portion of the refund may be recovered from additional State entitlement payments.

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 <i>(Passed through Ohio Department of Education)</i>						
Food Donation	N/A	10.550		\$45,560		\$45,560
Child Nutrition Cluster:						
School Breakfast Program	05-PU 05 05-PU 06	10.553	\$7,130 45,194 <u>52,324</u>		\$7,130 45,194 <u>52,324</u>	
National School Lunch Program	LL-P4 05 LL-P4 06 VG-S1-06	10.555	35,427 227,033 11,399 <u>273,859</u>		35,427 227,033 11,399 <u>273,859</u>	
Total Child Nutrition Cluster:			326,183		326,183	
Team Nutrition Grants	TW-NT-04	10.574	<u>1,960</u>		<u>1,960</u>	
Total U.S. Department of Agriculture			328,143	45,560	328,143	45,560
U.S. DEPARTMENT OF EDUCATION <i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 05 C1-S1 06	84.010	(11,141) 443,380 <u>432,239</u>			<u>435,986</u>
Total Title I Grants to Local Educational Agencies			432,239			435,986
Special Education Grants to States	6B-SF 05 6B-SF 05P	84.027	21,536 503,844 <u>525,380</u>			<u>497,619</u>
Total Special Education Grants to States			525,380			497,619
Safe and Drug Free Schools and Communities State Grants	DR-S1 06	84.186	13,464			12,529
State Grants for Innovative Programs	C2-S1 05 C2-S1 06	84.298	1,188 5,809 <u>6,997</u>			<u>5,809</u>
Total State Grants for Innovative Programs			6,997			5,809
Education Technology State Grants	TJ-S1-05 TJ-S1-06	84.318	6,330 11,302 <u>17,632</u>			<u>2,452</u> <u>9,997</u> <u>12,449</u>
Total Education Technology State Grants			17,632			12,449
Improving Teacher Quality State Grants	TR-S1-05 TR-S1-06	84.367	9,831 98,621 <u>108,452</u>			<u>122,264</u> <u>122,264</u>
Total Improving Teacher Quality State Grants			108,452			122,264
Total U.S. Department of Education			1,104,164		1,086,656	
Total Federal Assistance			<u>\$1,432,307</u>	<u>\$45,560</u>	<u>\$1,414,799</u>	<u>\$45,560</u>

The accompanying notes to this schedule are an integral part of this schedule.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) presents the activity of all federal financial programs of the School District. The School District reporting entity is defined in Note 1 of the School District's general purpose financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included in the schedule.

NOTE B - BASIS OF ACCOUNTING

The Schedule has been prepared on a basis of cash receipts and disbursements, consequently, revenues are recognized when received rather than when earned, and expenditures are recognized when paid rather than when the obligation is incurred.

NOTE C - REIMBURSEMENT GRANTS

The School District received reimbursement type grants for which expenditures are realized when revenue is received. These grants include School Breakfast Program and National School Lunch Program.

NOTE D - FOOD DONATION PROGRAM

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule of Federal Awards Receipts and Expenditures at the fair market value of the commodities received.

NOTE E - 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		
572-2005	\$(11,141)	
572-2006		\$11,141
Special Education Grants to States # 84.027		
516-2005	\$(37,123)	
516-2006		\$37,123
Improving Teacher Quality State Grants # 84.367		
590-2005	\$(12,205)	
590-2006		\$12,205



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, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County (the School District) as of and for the fiscal year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated June 14, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*. In a separate letter to the School District's management dated June 14, 2007, we reported other matters related to noncompliance we deemed immaterial.

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 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 14, 2007



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 major federal program for the fiscal year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings 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 School District's compliance with those requirements.

In our opinion, Kenton City School District, Hardin County, complied, in all material respects, with the requirements referred to above that apply to each major federal program for the fiscal year ended June 30, 2006. In a separate letter to the School District's management dated June 14, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

June 14, 2007

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2006
OMB CIRCULAR A -133 ' .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010: Title I Grants to Local Educational Agencies CFDA # 84.027 Special Education Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Noncompliance Ohio Rev. Code Section 135.22(B) – the School District failed to complete the required annual continuing education program.	Yes	
2005-002	Utilization of Separate Fund/Cost Centers for Grant Activity – the School District failed to maintain separate fund/cost centers for its Title 1 Grants to Local Educational Agencies grants..	Yes	



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
JULY 12, 2007**