



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

We have reviewed the *Independent Auditor's Report* of the Kenton City School District, Hardin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kenton City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 18, 2013

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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Independent Auditor's Report

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, Ohio, as of June 30, 2012, and the respective changes 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 January 11, 2013 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

January 11, 2013

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Kenton City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

In total net assets increased by \$18,309,353 or almost four times the previous year's net assets. A substantial portion of this increase is due the issuance of bonds for the Ohio School Facilities construction project (significant unspent proceeds as of fiscal year end) as well as from grants for construction.

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 nonmajor funds presented in total in a single column. For Kenton City School District, the General Fund and the Building and Ohio School Facilities Commission capital projects funds are the most significant funds.

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 2012. 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. Nonfinancial 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.

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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.

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 major funds are the General Fund and the Building and Ohio School Facilities Commission capital projects funds.

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 2012 compared to fiscal year 2011:

Table 1 Net Assets		Governmental Activities		
	2012	2011	Change	
<u>Assets:</u>				
Current and Other Assets	\$41,165,321	\$8,345,387	\$32,819,934	
Capital Assets, Net	3,101,933	2,855,611	246,322	
Total Assets	44,267,254	11,200,998	33,066,256	
<u>Liabilities:</u>				
Current and Other Liabilities	6,344,625	5,370,998	(973,627)	
Long-Term Liabilities	14,920,584	1,137,308	(13,783,276)	
Total Liabilities	21,265,209	6,508,306	(14,756,903)	

(continued)

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 1
Net Assets
(continued)

	Governmental Activities		
	2012	2011	Change
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	\$2,695,381	\$2,787,754	(\$92,373)
Restricted	18,004,914	940,600	17,064,314
Unrestricted	2,301,750	964,338	1,337,412
Total Net Assets	\$23,002,045	\$4,692,692	\$18,309,353

The above table demonstrates a number of significant changes from the prior fiscal year. Current and other assets are almost four times that of the prior year. There was over \$13 million in unspent bond proceeds for construction at fiscal year end as well as an increase in intergovernmental receivables of over \$16 million for grant resources from the Ohio School Facilities Commission for construction. In addition, there was an increase in the receivable for property taxes due to new tax levies to provide for the School District's local share of the building project. The increase in current and other liabilities reflects the deferred portion of the receivable for property taxes and the increase in long-term liabilities reflects the School District's issuance of bonds for construction.

Table 2 reflects the changes in net assets for fiscal year 2012 and 2011.

Table 2
Change in Net Assets

	Governmental Activities		
	2012	2011	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$1,464,370	\$1,381,548	\$82,822
Operating Grants and Contributions	3,021,989	3,286,038	(264,049)
Capital Grants and Contributions	12,600	18,200	(5,600)
Total Program Revenues	4,498,959	4,685,786	(186,827)
General Revenues			
Property Taxes	4,477,501	3,500,012	977,489
Income Taxes	2,752,474	1,949,074	803,400
Grants and Entitlements	26,089,245	9,585,516	16,503,729
Interest	14,464	5,264	9,200
Miscellaneous	162,682	201,778	(39,096)
Total General Revenues	33,496,366	15,241,644	18,254,722
Total Revenues	37,995,325	19,927,430	18,067,895
			(continued)

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Change in Net Assets
(continued)

	Governmental Activities		
	2012	2011	Change
<u>Expenses:</u>			
Instruction:			
Regular	\$9,361,328	\$9,522,665	\$161,337
Special	2,288,145	2,211,871	(76,274)
Vocational	190,175	148,751	(41,424)
Support Services:			
Pupils	550,225	568,351	18,126
Instructional Staff	1,343,221	1,311,802	(31,419)
Board of Education	25,167	24,637	(530)
Administration	1,593,033	1,578,399	(14,634)
Fiscal	457,191	435,720	(21,471)
Operation and Maintenance of Plant	1,577,728	1,548,705	(29,023)
Pupil Transportation	730,860	732,759	1,899
Central	46,270	69,471	23,201
Non-Instructional Services	903,865	907,954	4,089
Extracurricular Activities	331,681	314,571	(17,110)
Interest and Fiscal Charges	287,083	4,970	(282,113)
Total Expenses	<u>19,685,972</u>	<u>19,380,626</u>	<u>(305,346)</u>
Increase in Net Assets	18,309,353	546,804	17,762,549
Net Assets at Beginning of Year	<u>4,692,692</u>	<u>4,145,888</u>	<u>546,804</u>
Net Assets at End of Year	<u>\$23,002,045</u>	<u>\$4,692,692</u>	<u>\$18,309,353</u>

Total revenues increased significantly from the prior fiscal; however, there was a slight decrease in program revenues primarily due to a decrease in federal grants (generally the Title II-D Technology grant). The substantial increase in general revenues was due to the new property taxes related to the building construction project as well as grant resources from the Ohio School Facilities Commission for the construction. The increase in income taxes reflects a new .5 percent income tax and an increase in business in the area.

Overall expenses were very similar to the prior fiscal year.

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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	
	2012	2011	2012	2011
Instruction:				
Regular	\$9,361,328	\$9,522,665	\$7,938,272	\$7,838,875
Special	2,288,145	2,211,871	637,993	620,887
Vocational	190,175	148,751	152,119	110,695
Support Services:				
Pupils	550,225	568,351	537,625	545,151
Instructional Staff	1,343,221	1,311,802	1,343,221	1,311,802
Board of Education	25,167	24,637	25,167	24,637
Administration	1,593,033	1,578,399	1,593,033	1,578,399
Fiscal	457,191	435,720	457,191	435,720
Operation and Maintenance of Plant	1,577,728	1,548,705	1,577,728	1,548,705
Pupil Transportation	730,860	732,759	683,810	683,738
Central	46,270	69,471	46,270	69,471
Non-Instructional Services	903,865	907,954	(142,890)	(93,907)
Extracurricular Activities	331,681	314,571	50,391	15,697
Interest and Fiscal Charges	287,083	4,970	287,083	4,970
Total Expenses	<u>\$19,685,972</u>	<u>\$19,380,626</u>	<u>\$15,187,013</u>	<u>\$14,694,840</u>

A review of the above table demonstrates that only a very few of the School District's programs receive notable support through program revenues. For instance, 72 percent of the special instruction program costs were provided for through program revenues, primarily grant resources restricted for special instruction purposes. The non-instructional services program, which represents the cafeteria, receives program revenues from lunch sales and federal subsidies for food service operations. Extracurricular activities costs are largely paid for through admission charges for athletic events as well as from music and drama productions.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund and the Building and Ohio School Facilities Commission capital projects funds are the School District's major funds. For the General Fund, fund balance increased 58 percent due to the new income tax levy and an increase in business in the area. There was also an increase in property tax revenues due to an increase in assessed valuations of property.

The Building capital projects fund received bond proceeds to construct the new elementary building.

The Ohio School Facilities Commission received transfers from the bond proceeds for the local portion of the building project.

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Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund Budgeting Highlights

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

For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues collected were minimal. For expenditures, there was minimal change from the original budget to the final budget; however, actual expenditures were \$1.2 million less than the final budget and more closely mirrored the original budget estimates.

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2012, the School District had \$3,101,933 invested in capital assets (net of accumulated depreciation). Additions for the fiscal year consisted of the start of construction and minor equipment purchases. Disposals included routine equipment replacement. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt - At June 30, 2012, the School District's long-term debt consisted of general obligation bonds issued during the fiscal year for construction, in the amount of \$13,788,946, as well as an equipment lease with an outstanding balance of \$34,756. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Notes 15 and 16 to the basic financial statements.

Current Issues

The Kenton City School District is in a state of uncertain economic times as are all government bodies and school districts across the State. However, with positive new initiatives and the awarding of innovative grant funds, the enrollment in the School District has increased by approximately fifty students in the 2012-2013 school year. The School District has also seen a stabilization in open enrollment, the number of students leaving the School District is less than or equal to the number of students choosing to be educated at Kenton City Schools. The School District has also offered additional educational options through the Kenton Online Learning Academy for fiscal year 2013. This will all benefit our community and the financial stability of our School District.

Even in these uncertain economic times, our community approved a bond issue in November 2011 to construct a new Pre-K through 6 elementary school. The School District has plans to construct the building on land north of the current high school. The School District is participating in the Ohio Facilities Commission construction program in which the State will contribute 65 percent of the cost of eligible expenditures of the new facility and the local share being 35 percent of the cost plus any additional needs requested. This will allow the School District to consolidate all of the students in grades prekindergarten through 6th grade in one central location and be more efficient in operations. The School District's two largest elementary buildings currently were built in the 1930's and are in much need of major repairs. The community has taken advantage of this tremendous financial support from the State and then the anticipated cost efficiencies can be implemented by the School District in the 2014-2015 school year.

Kenton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District is very concerned about the State's reimbursement of tangible property tax, which eliminated the collection of the tax on the business sector due to the passage of House Bill 66 in prior years. The State thus far has reimbursed schools at a rate of 100 percent of the loss of those tax dollars through fiscal year 2011. Starting in fiscal year 2012, however, this reimbursement was reviewed and reductions were made which had a negative effect on the School District's revenue. Also due to the State of Ohio revenue decline, school funding is at risk and reductions of 10 to 20 percent for future fiscal years have been discussed. Continued reductions will be devastating to our School District and additional spending reductions will continue to be necessary in the future.

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 Tracy Hiller, Treasurer, Kenton City School District, 222 West Carrol Street, Kenton, Ohio 43326.

Kenton City School District
Statement of Net Assets
June 30, 2012

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$17,488,957
Accounts Receivable	13,285
Accrued Interest Receivable	50,466
Intergovernmental Receivable	17,678,222
Income Taxes Receivable	1,107,608
Prepaid Items	63,335
Inventory Held for Resale	5,662
Materials and Supplies Inventory	975
Property Taxes Receivable	4,756,811
Nondepreciable Capital Assets	1,156,380
Depreciable Capital Assets, Net	1,945,553
Total Assets	44,267,254
 <u>Liabilities:</u>	
Accounts Payable	92,314
Contracts Payable	118,076
Accrued Wages and Benefits Payable	1,654,299
Intergovernmental Payable	472,379
Deferred Revenue	3,907,813
Accrued Interest Payable	99,744
Long-Term Liabilities:	
Due Within One Year	614,319
Due in More Than One Year	14,306,265
Total Liabilities	21,265,209
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	2,695,381
Restricted For:	
Debt Service	185,909
Capital Projects	17,176,244
Other Purposes	642,761
Unrestricted	2,301,750
Total Net Assets	\$23,002,045

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$9,361,328	\$842,578	\$580,478	\$0
Special	2,288,145	0	1,650,152	0
Vocational	190,175	0	38,056	0
Support Services:				
Pupils	550,225	0	0	12,600
Instructional Staff	1,343,221	0	0	0
Board of Education	25,167	0	0	0
Administration	1,593,033	0	0	0
Fiscal	457,191	0	0	0
Operation and Maintenance of Plant	1,577,728	0	0	0
Pupil Transportation	730,860	23,708	23,342	0
Central	46,270	0	0	0
Non-Instructional Services	903,865	334,487	712,268	0
Extracurricular Activities	331,681	263,597	17,693	0
Interest and Fiscal Charges	287,083	0	0	0
Total Governmental Activities	<u>\$19,685,972</u>	<u>\$1,464,370</u>	<u>\$3,021,989</u>	<u>\$12,600</u>

General Revenues:

Property Taxes Levied for General Purposes
Property Taxes Levied for Classroom Facilities Purposes
Property Taxes Levied for Debt Service Purposes
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

(\$7,938,272)
(637,993)
(152,119)

(537,625)
(1,343,221)
(25,167)
(1,593,033)
(457,191)
(1,577,728)
(683,810)
(46,270)
142,890
(50,391)
(287,083)

(15,187,013)

3,838,089
65,919
573,493
2,752,474
26,089,245
14,464
162,682

33,496,366

18,309,353

4,692,692

\$23,002,045

Kenton City School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Building	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,937,353	\$4,285,739	\$8,870,901	\$1,394,964	\$17,488,957
Accounts Receivable	8,158	5,127	0	0	13,285
Accrued Interest Receivable	576	15,965	33,925	0	50,466
Interfund Receivable	171,025	0	0	0	171,025
Intergovernmental Receivable	52,679	0	17,169,509	456,034	17,678,222
Income Taxes Receivable	1,107,608	0	0	0	1,107,608
Prepaid Items	63,335	0	0	0	63,335
Inventory Held for Resale	0	0	0	5,662	5,662
Materials and Supplies Inventory	0	0	0	975	975
Property Taxes Receivable	3,868,701	0	0	888,110	4,756,811
Total Assets	<u>\$8,209,435</u>	<u>\$4,306,831</u>	<u>\$26,074,335</u>	<u>\$2,745,745</u>	<u>\$41,336,346</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$46,942	\$0	\$0	\$45,372	\$92,314
Contracts Payable	0	14,640	103,436	0	118,076
Accrued Wages and Benefits Payable	1,469,995	0	0	184,304	1,654,299
Interfund Payable	0	0	0	171,025	171,025
Intergovernmental Payable	451,624	0	0	20,755	472,379
Deferred Revenue	3,435,546	4,023	17,178,058	906,384	21,524,011
Total Liabilities	<u>5,404,107</u>	<u>18,663</u>	<u>17,281,494</u>	<u>1,327,840</u>	<u>24,032,104</u>
<u>Fund Balances:</u>					
Nonspendable	63,335	0	0	975	64,310
Restricted	0	4,288,168	8,792,841	1,188,677	14,269,686
Assigned	163,526	0	0	301,623	465,149
Unassigned (Deficit)	2,578,467	0	0	(73,370)	2,505,097
Total Fund Balances	<u>2,805,328</u>	<u>4,288,168</u>	<u>8,792,841</u>	<u>1,417,905</u>	<u>17,304,242</u>
Total Liabilities and Fund Balances	<u>\$8,209,435</u>	<u>\$4,306,831</u>	<u>\$26,074,335</u>	<u>\$2,745,745</u>	<u>\$41,336,346</u>

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2012

Total Governmental Fund Balances	\$17,304,242
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,101,933
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	3,650	
Accrued Interest Receivable	12,572	
Intergovernmental Receivable	17,324,074	
Income Taxes Receivable	134,855	
Property Taxes Receivable	<u>141,047</u>	
		17,616,198

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(99,744)	
General Obligation Bonds Payable	(13,788,946)	
Compensated Absences Payable	(1,096,882)	
Capital Leases Payable	<u>(34,756)</u>	
		<u>(15,020,328)</u>

Net Assets of Governmental Activities	<u><u>\$23,002,045</u></u>
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See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Building	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$3,837,364	\$0	\$0	\$612,448	\$4,449,812
Income Taxes	2,738,524	0	0	0	2,738,524
Intergovernmental	9,709,110	0	0	3,014,297	12,723,407
Interest	2,892	0	0	0	2,892
Tuition and Fees	862,396	0	0	0	862,396
Extracurricular Activities	0	0	0	263,597	263,597
Charges for Services	0	0	0	334,487	334,487
Gifts and Donations	0	0	0	24,063	24,063
Miscellaneous	157,578	1,487	0	305	159,370
Total Revenues	<u>17,307,864</u>	<u>1,487</u>	<u>0</u>	<u>4,249,197</u>	<u>21,558,548</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	8,583,597	0	0	695,187	9,278,784
Special	1,676,584	0	0	611,908	2,288,492
Vocational	183,683	0	0	0	183,683
Support Services:					
Pupils	496,318	0	0	32,805	529,123
Instructional Staff	679,209	0	0	635,859	1,315,068
Board of Education	25,167	0	0	0	25,167
Administration	1,568,292	0	0	12,342	1,580,634
Fiscal	440,998	0	0	15,724	456,722
Operation and Maintenance of Plant	1,524,744	0	0	0	1,524,744
Pupil Transportation	682,273	0	0	0	682,273
Central	46,270	0	0	0	46,270
Non-Instructional Services	0	0	0	906,386	906,386
Extracurricular Activities	31,026	0	0	243,930	274,956
Capital Outlay	0	73,199	452,279	0	525,478
Debt Service:					
Principal Retirement	33,101	0	0	0	33,101
Interest and Fiscal Charges	3,393	182,481	0	0	185,874
Total Expenditures	<u>15,974,655</u>	<u>255,680</u>	<u>452,279</u>	<u>3,154,141</u>	<u>19,836,755</u>
Excess of Revenues Over (Under) Expenditures	<u>1,333,209</u>	<u>(254,193)</u>	<u>(452,279)</u>	<u>1,095,056</u>	<u>1,721,793</u>
<u>Other Financing Sources (Uses):</u>					
General Obligation Bonds Issued	0	13,604,587	0	0	13,604,587
Premium on Bonds Issued	0	328,839	0	0	328,839
Discount on Bonds Issued	0	(145,945)	0	0	(145,945)
Transfers In	0	0	9,245,120	301,623	9,546,743
Transfers Out	(301,623)	(9,245,120)	0	0	(9,546,743)
Total Other Financing Sources (Uses)	<u>(301,623)</u>	<u>4,542,361</u>	<u>9,245,120</u>	<u>301,623</u>	<u>13,787,481</u>
Changes in Fund Balances	1,031,586	4,288,168	8,792,841	1,396,679	15,509,274
Fund Balances at Beginning of Year	1,773,742	0	0	21,226	1,794,968
Fund Balances at End of Year	<u>\$2,805,328</u>	<u>\$4,288,168</u>	<u>\$8,792,841</u>	<u>\$1,417,905</u>	<u>\$17,304,242</u>

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2012

Changes in Fund Balances - Total Governmental Funds \$15,509,274

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 capital outlay exceeded depreciation in the current fiscal year:

Capital Outlay - Nondepreciable Capital Assets	517,741	
Capital Outlay - Depreciable Capital Assets	55,883	
Depreciation	<u>(327,302)</u>	246,322

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

Property Taxes	27,689	
Income Taxes	13,950	
Intergovernmental	16,376,364	
Interest	11,572	
Tuition and Fees	3,890	
Miscellaneous	<u>3,312</u>	16,436,777

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 33,101

Bond proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (13,604,587)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues/expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities.

Accrued Interest Payable	(99,744)	
Annual Accretion on Capital Appreciation Bonds	(1,465)	
Unamortized Premium	(328,839)	
Unamortized Discount	<u>145,945</u>	(284,103)

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. (27,431)

Change in Net Assets of Governmental Activities \$18,309,353

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$3,642,022	\$3,649,335	\$3,648,854	(\$481)
Income Taxes	2,359,000	2,502,683	2,502,683	0
Intergovernmental	10,238,594	9,743,741	9,705,007	(38,734)
Interest	2,900	303,900	303,862	(38)
Tuition and Fees	735,843	860,511	864,054	3,543
Miscellaneous	80,997	106,943	107,587	644
Total Revenues	<u>17,059,356</u>	<u>17,167,113</u>	<u>17,132,047</u>	<u>(35,066)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	8,836,316	8,839,834	8,529,240	310,594
Special	1,850,775	1,976,832	1,724,296	252,536
Vocational	179,523	182,068	181,528	540
Support Services:				
Pupils	511,352	516,488	501,543	14,945
Instructional Staff	716,824	727,279	664,185	63,094
Board of Education	28,527	33,440	30,080	3,360
Administration	1,616,043	1,649,604	1,563,578	86,026
Fiscal	465,185	478,345	445,630	32,715
Operation and Maintenance of Plant	1,793,016	1,912,485	1,557,248	355,237
Pupil Transportation	743,259	771,818	745,424	26,394
Central	84,000	84,000	46,270	37,730
Extracurricular Activities	43,592	50,522	32,859	17,663
Total Expenditures	<u>16,868,412</u>	<u>17,222,715</u>	<u>16,021,881</u>	<u>1,200,834</u>
Excess of Revenues Over (Under) Expenditures	<u>190,944</u>	<u>(55,602)</u>	<u>1,110,166</u>	<u>1,165,768</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	500	500	0	(500)
Refund of Prior Year Expenditures	54,700	54,700	52,325	(2,375)
Refund of Prior Year Receipts	0	(38,237)	(38,237)	0
Transfers Out	(3,000)	(301,623)	(301,623)	0
Total Other Financing Sources (Uses)	<u>52,200</u>	<u>(284,660)</u>	<u>(287,535)</u>	<u>(2,875)</u>
Changes in Fund Balance	243,144	(340,262)	822,631	1,162,893
Fund Balance at Beginning of Year	2,025,240	2,025,240	2,025,240	0
Prior Year Encumbrances Appropriated	106,520	106,520	106,520	0
Fund Balance at End of Year	<u>\$2,374,904</u>	<u>\$1,791,498</u>	<u>\$2,954,391</u>	<u>\$1,162,893</u>

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$29,364	\$43,012
<u>Liabilities:</u>		
Due to Students	0	\$43,012
<u>Net Assets:</u>		
Scholarships	29,175	
Held in Trust for Students	189	
Total Net Assets	\$29,364	

See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Statement of Change in Fiduciary Net Assets
Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2012

Additions:

Gifts and Donations	\$13,897
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Deductions:

Non-Instructional Services	<u>6,782</u>
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Change in Net Assets	7,115
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Net Assets at Beginning of Year	<u>22,249</u>
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Net Assets at End of Year	<u><u>\$29,364</u></u>
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See Accompanying Notes to the Basic Financial Statements

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 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 266th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by seventy-five classified employees, one hundred twenty-four certified teaching personnel, and twenty-seven administrative employees who provide services to 1,880 students and other community members. The School District currently operates eight instructional/support buildings.

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 two jointly governed organizations and three insurance pools. These organizations are the Ohio Hi-Point Joint Vocational School, Western Ohio Computer Organization, Schools of Ohio Risk Sharing Authority, Hardin County School Employees’ Health and Welfare Benefit Plan and Trust, and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 20 and 21 to the basic financial statements.

Note 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. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions 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.

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. Nonmajor 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

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.

Building Fund - The Building Fund accounts for bond proceeds restricted to acquiring or constructing capital facilities.

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission Fund is used to account for resources received and restricted for expenditures in connection with contracts entered into by the School District and the Ohio School Facilities Commission for building an elementary school.

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

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.

C. Measurement Focus

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.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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.

Revenues - Exchange and Nonexchange 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.

Nonexchange 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 nonexchange 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 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.

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 final amended certificate of estimated resources requested by the School District prior to fiscal year end.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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”.

During fiscal year 2012, investments included repurchase agreements, U.S. treasury obligations, and federal agency securities. Repurchase agreements are reported at cost. Investments are reported at fair value, which is based on quoted market price.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 was \$2,892, which includes \$383 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, 2012, 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. Capital Assets

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

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

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 50 years
Buildings and Building Improvements	13 - 75 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	10 - 15 years
Infrastructure	30 years

J. 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.

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

M. Unamortized Premiums and Discounts

On government-wide financial statements, premiums and discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of bonds payable. Bond discounts are presented as a reduction of the face amount of bonds payable.

On the governmental fund financial statements, bond premiums and discounts are recognized in the period when the debt is issued.

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 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.

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

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

P. Interfund Transactions

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

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

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

Q. 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.

Note 3 - Accountability

At June 30, 2012, the following funds had deficit fund balances:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Special Revenue Funds	
Title VI-B	\$28,034
Title I	38,065
Title II-A	7,271

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

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 4 - 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 restricted, committed, or assigned 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	\$1,031,586
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2011, Received in Cash FY 2012	1,177,596
Accrued FY 2012, Not Yet Received in Cash	(1,602,176)
Expenditure Accruals:	
Accrued FY 2011, Paid in Cash FY 2012	(1,892,357)
Accrued FY 2012, Not Yet Paid in Cash	1,968,561
Cash Adjustments:	
Unrecorded Activity FY 2011	301,088
Prepaid Items	(7,680)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(153,987)
Budget Basis	\$822,631

Note 5 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Deposits and Investments (continued)

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.

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. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the financial institution holding the deposits. At year end, the School District's bank balance of \$3,191,547 was either covered by FDIC or collateralized in the manner described above.

The School District has no deposit policy for custodial credit 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.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Deposits and Investments (continued)

Investments

As of June 30, 2012, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreement	\$1,535,245	7/1/12
U.S. Treasury Bill	151,945	11/1/12
U.S. Treasury Bill	234,847	12/13/12
Federal Home Loan Mortgage Corporation Notes	234,732	3/1/13
Federal Home Loan Mortgage Corporation Notes	748,044	4/23/14
Federal Home Loan Mortgage Corporation Notes	708,631	7/30/14
Federal Home Loan Mortgage Corporation Notes	175,285	9/19/14
Federal Farm Credit Bank Notes	404,812	1/14/13
Federal National Mortgage Association Notes	562,551	2/12/13
Federal National Mortgage Association Notes	363,111	7/12/13
Federal National Mortgage Association Notes	453,749	9/23/13
Federal National Mortgage Association Notes	1,039,350	2/5/14
Federal National Mortgage Association Notes	786,733	6/27/14
Federal National Mortgage Association Notes	777,739	8/28/14
Federal National Mortgage Association Bonds	353,633	10/8/13
Federal Home Loan Bank Notes	199,936	4/19/13
Federal Home Loan Bank Notes	334,849	5/21/13
Federal Home Loan Bank Notes	349,940	6/14/13
Federal Home Loan Bank Notes	402,672	8/28/13
Federal Home Loan Bank Notes	900,594	11/27/13
Federal Home Loan Bank Notes	967,613	12/27/13
Federal Home Loan Bank Notes	1,000,390	1/29/14
Federal Home Loan Bank Notes	878,934	3/14/14
Federal Home Loan Bank Notes	784,812	5/23/14
Federal Home Loan Bank Notes	152,463	12/12/14
Total Investments	<u>\$14,502,610</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

The securities underlying the repurchase agreement (Federal Home Loan Mortgage Corporation Notes) carry a rating of Aaa by Moodys. The U.S. treasury bills are fully guaranteed by the United States Government. The Federal Home Loan Mortgage Corporation Notes, Federal Farm Credit Bank Notes, Federal National Mortgage Association Notes and Bonds, and the Federal Home Loan Bank Notes carry a rating of Aaa by Moody's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that repurchase agreements be limited to investments in United States treasury securities and federal government agency securities.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Deposits and Investments (continued)

For an investment, custodial credit risk is the risk that, in the event of 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 repurchase agreement is exposed to custodial credit risk as it is 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 the State statute.

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
Repurchase Agreement	\$1,535,245	10.59%
U.S. Treasury	386,792	2.67
Federal Home Loan Mortgage Corporation	1,866,692	12.87
Federal Farm Credit Bank	404,812	2.79
Federal National Mortgage Association	4,336,866	29.90
Federal Home Loan Bank	5,972,203	41.18

Note 6 - Receivables

Receivables at June 30, 2012, 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, except income and property taxes, are expected to be collected within one year. Income and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Hardin County Educational Service Center	\$2,786
Ridgmont Local School District	33,740
Hardin Northern Local School District	6,034
Miscellaneous	10,119
Total General Fund	52,679
Ohio School Facilities Commission	
State of Ohio	17,169,509
	(continued)

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 6 - Receivables (continued)

	<u>Amount</u>
Governmental Activities (continued)	
Other Governmental Funds	
Food Service	\$9,947
High Schools that Work	2,070
Education Jobs	35,843
Race to the Top	64,370
Title VI-B	103,007
Title II-D	4,768
Title I	192,664
Preschool	968
Title II-A	35,763
Rural and Low Income	6,634
Total Other Governmental Funds	<u>456,034</u>
Total Intergovernmental Receivables	<u><u>\$17,678,222</u></u>

Note 7 - Income Taxes

The School District levies a voted tax of 1.5 percent for general operations on the income of residents and of estates. A portion of the tax (1 percent) was effective on January 1, 1996, and is for a continuing period. The remaining .5 percent was effective on January 1, 2011, and is for a five-year 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.

Note 8 - 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 and public utility property located in the School District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 8 - Property Taxes (continued)

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2012, 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, 2012, was \$580,480 in the General Fund, \$13,141 in the School Facilities Maintenance special revenue fund, and \$114,330 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2011, was \$391,970 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 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$138,021,860	73.15%	\$150,047,360	75.04%
Industrial/Commercial	42,184,410	22.36	41,101,220	20.56
Public Utility	8,463,660	4.49	8,807,240	4.40
Total Assessed Value	<u>\$188,669,930</u>	<u>100.00%</u>	<u>\$199,955,820</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$39.05	

During fiscal year 2012, the voters of the School District approved two bond levies, one for 4.35 mills and one for .5 mills, for the classroom facilities construction and maintenance.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$638,639	\$0	\$0	\$638,639
Construction in Progress	0	517,741	0	517,741
Depreciable Capital Assets				
Land Improvements	681,351	0	0	681,351
Buildings and Building Improvements	4,676,663	0	0	4,676,663
Furniture, Fixtures, and Equipment	2,347,319	55,883	(142,305)	2,260,897
Vehicles	1,245,496	0	0	1,245,496
Infrastructure	15,850	0	0	15,850
Total Depreciable Capital Assets	8,966,679	55,883	(142,305)	8,880,257
Less Accumulated Depreciation				
Land Improvements	(408,034)	(25,689)	0	(433,723)
Buildings and Building Improvements	(3,843,962)	(125,449)	0	(3,969,411)
Furniture, Fixtures, and Equipment	(1,748,114)	(113,435)	142,305	(1,719,244)
Vehicles	(744,801)	(62,200)	0	(807,001)
Infrastructure	(4,796)	(529)	0	(5,325)
Total Accumulated Depreciation	(6,749,707)	(327,302)	142,305	(6,934,704)
Depreciable Capital Assets, Net	2,216,972	(271,419)	0	1,945,553
Governmental Activities				
Capital Assets, Net	\$2,855,611	\$246,322	\$0	\$3,101,933

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$75,313
Special	10,622
Vocational	6,152
Support Services:	
Pupils	5,123
Instructional Staff	29,466
Administration	9,730
Fiscal	1,856
Operation and Maintenance of Plant	65,087
Pupil Transportation	52,197
Non-Instructional Services	14,531
Extracurricular Activities	57,225
Total Depreciation Expense	<u>\$327,302</u>

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 10 - Interfund Assets/Liabilities

At June 30, 2012, the General Fund had an interfund receivable, in the amount of \$171,025, from other governmental funds for short-term loans made to those funds. All amounts are expected to be repaid within one year.

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted for the following insurance coverage.

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

Property	\$60,028,965
General Liability	
Per Occurrence	12,000,000
Aggregate	14,000,000
Automobile Liability	12,000,000
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 2012, the School District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to 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 2012, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan 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 Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participants' claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the 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. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP member with five or more years 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 of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$1,018,463 and \$12,452 for the fiscal year ended June 30, 2012, \$1,041,552 and \$7,803 for the fiscal year ended June 30, 2011, and \$1,117,684 and \$13,450 for the fiscal year ended June 30, 2010. For fiscal year 2012, 83 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The contribution to STRS Ohio for the DCP for fiscal year 2012 was \$23,054 made by the School District and \$16,467 made by the plan members. In addition, member contributions of \$8,894 were made for fiscal year 2012 for the defined contribution portion of the CP.

Note 12 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 was \$266,854, \$241,769, and \$277,179, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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, 2012, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - The School District participates in a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Note 13 - Postemployment Benefits (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$81,075, \$82,147, and \$88,894, respectively. For fiscal year 2012, 83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2012, this amount was \$35,800. For fiscal year 2012, the School District paid \$35,155 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$11,557, \$29,274, and \$9,977, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2012, this actuarially required allocation was .75 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 was \$15,759, \$15,558, and \$16,483, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 14 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

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

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds					
FY 2012 School Facilities Construction and Improvement Bonds					
Serial Bonds 1.5 - 4%	\$0	\$8,870,000	\$0	\$8,870,000	\$510,000
Term Bonds 4%	0	4,705,000	0	4,705,000	0
Capital Appreciation Bonds	0	29,587	0	29,587	0
Accretion on Capital Appreciation Bonds	0	1,465	0	1,465	0
Premium	0	328,839	0	328,839	0
Discount	0	(145,945)	0	(145,945)	0
Total General Obligation Bonds	0	13,788,946	0	13,788,946	510,000

(continued)

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 15 - Long-Term Obligations (continued)

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12	Amounts Due Within One Year
Governmental Activities (continued)					
Compensated Absences Payable	\$1,069,451	\$114,295	\$86,864	\$1,096,882	\$69,563
Capital Leases Payable	67,857	0	33,101	34,756	34,756
Total General Long-Term Obligations	<u>\$1,137,308</u>	<u>\$13,903,241</u>	<u>\$119,965</u>	<u>\$14,920,584</u>	<u>\$614,319</u>

FY 2012 School Facilities Construction and Improvement Bonds - On April 24, 2012, the School District issued \$13,604,587 in voted general obligation bonds for constructing and equipping school facilities. The bond issue consists of serial, term, and capital appreciation bonds, in the amount of \$8,870,000, \$4,705,000, and \$29,587, respectively. The bonds were issued for a twenty-eight fiscal year period, with final maturity in fiscal year 2040. The bonds are being retired through the Bond Retirement debt service fund.

As of June 30, 2012, the School District had unspent bond proceeds, in the amount of \$13,086,846.

The bonds maturing on December 1, 2039, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2033	\$595,000
2034	620,000
2035	645,000
2036	670,000
2037	695,000
2038	725,000

The remaining principal, in the amount of 755,000, will be paid at stated maturity on December 1, 2039.

The bonds maturing on or after December 1, 2022, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after December 1, 2021, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds mature in fiscal year 2022. The maturity amount of the bonds is \$295,000. For fiscal year 2012, \$1,465 was accreted for a total bond value of \$31,052 at fiscal year end.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$4,189,093 with an unvoted debt margin of \$191,149 at June 30, 2012.

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 15 - Long-Term Obligations (continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	General Obligation Debt				
	Serial	Term	Capital	Interest	Total
2013	\$510,000	\$0	\$0	\$491,957	\$1,001,957
2014	345,000	0	0	437,081	782,081
2015	340,000	0	0	430,231	770,231
2016	355,000	0	0	423,281	778,281
2017	365,000	0	0	416,993	781,993
2018-2022	1,630,000	0	29,587	2,242,363	3,901,950
2023-2027	2,170,000	0	0	1,704,801	3,874,801
2028-2032	2,580,000	0	0	1,287,746	3,867,746
2033-2037	575,000	2,530,000	0	754,382	3,859,382
2038-2040	0	2,175,000	0	132,900	2,307,900
	<u>\$8,870,000</u>	<u>\$4,705,000</u>	<u>\$29,587</u>	<u>\$8,321,735</u>	<u>\$21,926,322</u>

Note 16 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2012 were \$33,101.

	Governmental Activities
Equipment	\$135,876
Less Accumulated Depreciation	(26,420)
Carrying Value, June 30, 2012	<u>\$109,456</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2012.

Year	Governmental Activities	
	Principal	Interest
2013	\$34,756	\$1,738

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 17 - Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Building	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Nonspendable for:					
Materials and Supplies					
Inventory	\$0	\$0	\$0	\$975	\$975
Prepaid Items	63,335	0	0	0	63,335
Total Nonspendable	63,335	0	0	975	64,310
Restricted for:					
Athletics and Music	0	0	0	140,646	140,646
Building Construction	0	4,288,168	8,792,841	0	13,081,009
Capital Improvements	0	0	0	1,698	1,698
Debt Retirement	0	0	0	590,308	590,308
Facilities Maintenance	0	0	0	67,850	67,850
Food Service Operations	0	0	0	379,992	379,992
Regular Instruction	0	0	0	8,183	8,183
Total Restricted	0	4,288,168	8,792,841	1,188,677	14,269,686
Assigned for:					
Extracurricular Activities	32,098	0	0	0	32,098
Permanent Improvements	0	0	0	301,623	301,623
Underground Storage Tank	11,000	0	0	0	11,000
Unpaid Obligations	120,428	0	0	0	120,428
Total Assigned	163,526	0	0	301,623	465,149
Unassigned (Deficit)	2,578,467	0	0	(73,370)	2,505,097
Total Fund Balance	\$2,805,328	\$4,288,168	\$8,792,841	\$1,417,905	\$17,304,242

Kenton City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 18 - 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 acquisition and construction of capital improvements. The amount 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. This amount must be carried forward and used for the same purpose in future years.

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2012.

	Capital Improvements
Balance June 30, 2011	\$15,038
Current Year Set Aside Requirement	322,609
Current Year Offsets	(337,647)
Set Aside Reserve Balance June 30, 2012	<u>\$0</u>

Note 19 - Interfund Transfers

During fiscal year 2012, the General Fund made a transfer to other governmental funds, in the amount of \$301,623, for permanent improvements. The Building capital projects fund made a transfer to the Ohio School Facilities Commission Fund in the amount of \$9,245,120 to fund the local share of the Classroom Facilities Association Program Project.

Note 20 - Jointly Governed Organizations

A. Ohio Hi-Point Joint Vocational School

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

Note 20 - Jointly Governed Organizations (continued)

B. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2012, the School District paid \$79,303 to WOCO for various services. Financial information can be obtained from WOCO, 129 East Court Street, Sidney, Ohio 45365.

Note 21 - 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 board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

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

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

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.

Note 21 - Insurance Pools (continued)

C. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by the five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 22 - Contingencies

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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 is 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

Kenton City School District
Hardin County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	3L60	10.555	\$ 463,303	\$ 96,434	\$ 463,303	\$ 96,434
School Breakfast Program	3L70	10.553	113,950	-	113,950	-
Summer Food Service Program for Children	3L60	10.559	14,866	-	14,866	-
Total Nutrition Cluster			592,119	96,434	592,119	96,434
Total United States Department of Agriculture			592,119	96,434	592,119	96,434
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	507,184	-	540,872	-
Title I Grants to Local Education Agencies, ARRA	3DK0	84.389	70,475	-	43,092	-
Total Title I, Part A Cluster			577,659	-	583,964	-
<i>Special Education Cluster (IDEA):</i>						
Special Education - Grants to States	3M20	84.027	431,185	-	434,478	-
Special Education - Preschool Grants	3C50	84.173	9,633	-	10,601	-
Special Education - Grants to States, ARRA	3DJ0	84.391	22,898	-	9,752	-
Special Education - Preschool Grants, ARRA	3DL0	84.392	2,644	-	2,113	-
Total Special Education Cluster			466,360	-	456,944	-
<i>Education Technology State Grants Cluster:</i>						
Education Technology State Grants	3S20	84.318	2,282	-	-	-
Education Technology State Grants, ARRA	3DM0	84.386	17,039	-	4,999	-
Total Education Technology State Grants Cluster			19,321	-	4,999	-
Safe and Drug-Free Schools and Communities - State Grants	3D10	84.186	831	-	831	-
Rural Education	3Y80	84.358	31,973	-	31,619	-
Improving Teacher Quality State Grants	3Y60	84.367	94,728	-	108,793	-
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, ARRA	3FD0	84.395	285,758	-	297,766	-
Education Jobs Fund	3ET0	84.410	421,476	-	457,318	-
Total United States Department of Education			1,898,106	-	1,942,234	-
Total Federal Financial Assistance			\$ 2,490,225	\$ 96,434	\$ 2,534,353	\$ 96,434

See accompanying notes to the schedule of federal awards receipts and expenditures.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

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

NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*

We did note certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 11, 2013.

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

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
January 11, 2013



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

Compliance

We have audited the compliance of Kenton City School District, Hardin County, Ohio (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 could directly and materially affect each of Kenton City School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The 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 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 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 District's compliance with those requirements.

In our opinion, Kenton City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Members of the Board of Education
Kenton City School District
Report on Compliance with Requirements Applicable to each Major Federal Program and on
Internal Control Over Compliance Required by OMB Circular A-133
Page 2

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 11, 2013

**Kenton City School District
Hardin County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: National School Lunch Program, CFDA #10.555; School Breakfast Program, CFDA #10.553; Summer Food Service Program for Children, CFDA #10.559 Education Jobs Fund, CFDA #84.410 State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, ARRA, CFDA #84.395
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**Kenton City School District
Hardin County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2012**

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted



Dave Yost • 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
MARCH 28, 2013