



**Auditor of State
Betty Montgomery**

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, (the "School District"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 30, 2005

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Kenton City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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

Key highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$384,841 or Six percent. The greatest contribution to this decrease was an increase in regular instruction expenses (in excess of Six percent). Two primary factors caused the increase, a large purchase of textbooks and other instructional materials (over \$500,000) and an increase in tuition expense. A change in accounting procedures for the costs associated with open enrollment students leaving our School District has increased the expense for regular instruction tuition for fiscal year 2004, in the amount of \$325,000.

For fiscal year 2004, general revenues were \$13,641,650, or 80 percent of total revenues. While reliance on general revenues was slightly lower for this fiscal year, dependence on property taxes and unrestricted state entitlements has remained between 80 and 85 percent for the past three fiscal years.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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

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

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 multitude of financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

Governmental Funds - Most 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

**Table 1
Net Assets**

	Governmental Activities	
	2004	2003
Assets:		
Current and Other Assets	\$9,794,001	\$10,168,002
Capital Assets, Net	3,153,588	3,139,555
Total Assets	12,947,589	13,307,557
Liabilities:		
Current and Other Liabilities	6,098,592	6,138,407
Long-Term Liabilities	1,104,507	1,039,819
Total Liabilities	7,203,099	7,178,226
Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,153,588	3,139,555
Restricted	294,759	379,500
Unrestricted	2,296,143	2,610,276
Total Net Assets	\$5,744,490	\$6,129,331

A slight decrease of 3.7 percent occurred within current and other assets when compared to the prior fiscal year. The only asset account which had a real affect on this decrease was a drop in cash and cash equivalents, largely the result of cash carryover spending due to fewer resources available to fund existing programs.

Reviewing liabilities demonstrates a six percent increase in long-term liabilities, which for our School District is limited to compensated absences. The increase in the liability is simply due to the fact that more employees have met the criteria for inclusion in the liability calculation.

While the School District's restricted net assets represent five percent of overall net assets, restricted net assets when viewed alone did experience a 22 percent decrease. The School District had fewer outstanding receivables for grants than in the prior fiscal year which caused this decrease.

On the other hand, unrestricted net assets had a decrease of 12 percent and \$314,133. Of this decrease, six percent is the result of cash carryover spending and lower cash balances. The culmination of minor decreases in various other asset categories and minor increases in various liability categories accounts for the remainder of the change.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004 and 2003.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues:		
Charges for Services and Sales	\$709,212	\$633,535
Operating Grants, Contributions, and Interest	2,639,551	1,879,732
Capital Grants and Contributions	61,859	22,971
Total Program Revenues	<u>3,410,622</u>	<u>2,536,238</u>
General Revenues:		
Property Taxes	4,486,047	3,909,237
Income Taxes	1,549,548	1,550,819
Grants and Entitlements	7,465,950	7,333,658
Interest	61,936	117,599
Miscellaneous	78,169	136,279
Total General Revenues	<u>13,641,650</u>	<u>13,047,592</u>
Total Revenues	<u>17,052,272</u>	<u>15,583,830</u>
Expenses		
Instruction:		
Regular	8,766,810	8,249,226
Special	2,031,719	1,743,459
Vocational	311,538	294,411
Support Services:		
Pupils	525,523	646,266
Instructional Staff	664,072	713,391
Board of Education	35,947	29,788
Administration	1,511,318	1,533,064
Fiscal	444,251	421,868
Operation and Maintenance of Plant	1,501,555	1,582,657
Pupil Transportation	635,869	611,706
Central	26,209	18,410
Non-Instructional Services	766,777	713,428
Extracurricular Activities	215,525	233,696
Interest and Fiscal Charges	0	1,697
Total Expenses	<u>17,437,113</u>	<u>16,793,067</u>
Decrease in Net Assets	<u>(\$384,841)</u>	<u>(\$1,209,237)</u>

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Program revenues, which are primarily represented by charges for tuition, fees, and extracurricular activities, as well as restricted intergovernmental revenues were 20 percent of total revenues for fiscal year 2004 and were 16 percent higher than fiscal year 2003. The School District has implemented a parent pay all-day Kindergarten program has boosted tuition revenues and contributed to the slight increase in charges for services revenues. Both increases in operating grants and capital grants are associated with the regular instruction program. Increase in operating grants is due to a change in accounting procedures for open enrollment revenue as well as increases in various grant programs for regular instruction purposes. The increase in capital grants is related to the school net program which provides computer equipment and associated expenses.

As previously mentioned, general revenues were 80 percent of total revenues for fiscal year 2004 and fluctuated between 80 and 85 percent over the past three fiscal years. Tax revenues and unrestricted state entitlements will continue to be crucial in providing support for School District operations.

As should be expected, instruction costs represent the largest of the School District's expenses, 64 percent for fiscal year 2004. Overall, there was an eight percent increase in instruction costs from the prior fiscal year. Contributing factors include routine salary increases and the corresponding increases to fringe benefits. There was also a significant replacement of textbooks and other instructional materials in fiscal year 2004.

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 and sales, 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	
	2004	2003	2004	2003
Instruction:				
	\$8,766,810	\$8,249,226	\$7,630,282	\$7,827,077
	2,031,719	1,743,459	768,955	574,524
	311,538	294,411	264,500	290,900
Support Services:				
Pupils	525,523	646,266	517,731	638,480
Instructional Staff	664,072	713,391	664,072	713,391
Board of Education	35,947	29,788	35,947	29,788
Administration	1,511,318	1,533,064	1,511,318	1,533,064
Fiscal	444,251	421,868	444,251	421,868
Operation and Maintenance of Plant	1,501,555	1,582,657	1,501,555	1,582,657
Pupil Transportation	635,869	611,706	581,248	583,404
Central	26,209	18,410	26,209	18,410
Non-Instructional Services	766,777	713,428	62,275	46,142
Extracurricular Activities	215,525	233,696	18,148	(4,573)
Interest and Fiscal Charges	0	1,697	0	1,697
Total Expenses	\$17,437,113	\$16,793,067	\$14,026,491	\$14,256,829

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Since expenditures exceeded revenues for all funds in total, the School District is not able to meet current costs of operating. A comparison to the prior fiscal year's financial statements will demonstrate that the gap between revenues and expenditures has been greatly improved. Due to changes and reductions in state and federal funding of various programs, any further reduction in fund balances will have to be addressed by the Board of Education.

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.

During fiscal year 2004, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$14,833,079, were below original budgeted revenues, in the amount of \$14,946,888. The difference was largely due to less revenue than expected for state foundation and parity aid. The difference between the final budgeted revenues and those actually received was inconsequential.

The increase in expenditures from the original to the final budget was only 3 percent. The difference in actual expenditures made from the final budget was over 11 percent and a somewhat significant reduction. The largest dollar savings were realized in the regular instruction and operation and maintenance functions. Regular instruction was affected by budgeting for salaries for the entire contract year which is through August, but actual expenditures are through June. In addition, the School District anticipated an increase in insurance premiums that did not occur and experienced a savings in the workers' compensation premium. While these salary related reductions affected other functions as well, regular instruction is the largest program affected. Operation and maintenance costs were reduced through prudent spending as well as lower utility costs.

Actual General Fund revenues were less than expenditures \$550,226. With fewer resources coming in to fund existing programs, the School District has been spending the cash carryover from prior fiscal years. Major cuts have been implemented to slow the spending of cash reserves, but with minimal revenue growth and inflation even at a modest level, we will require additional revenues either through local or state funding to continue existing programs.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2004, the School District had \$3,153,588 invested in capital assets (net of accumulated depreciation), an increase of \$14,033, or less than 1 percent. Additions to capital assets included routine computer and computer related purchases, maintenance equipment, instruments, a fire alarm system, a storage building, grandstand renovations, a new bus, and a mower. Disposals for the fiscal year included some computer and related equipment, a bus, a tractor, and a mower. For further information regarding the School District's capital assets see Note 10 to the basic financial statements.

Debt - At June 30, 2004, the only long-term obligation was for compensated absences. For further information regarding the School District's debt see Note 16 to the basic financial statements.

Current Issues

The School District is experiencing declining revenues in a declining economy and less State funding increases than experienced in prior years. During previous fiscal years, the School District's leading employer, Meritor, has consistently reduced its labor force from above five hundred to a little over one hundred. During 2004, Meritor sold out to Syphris who renegotiated lower wages and benefits with the union but has hired more employees and established more varied product lines. Another School District employer, Durez Occidental Chemical Corporation, has also reduced their staff by approximately 65 percent since fiscal year 2000. The School District has experienced a decline in enrollment due to parent relocation for jobs and declining birth rate.

The School District is very concerned with the loss of tangible property taxes as proposed by the State legislature and how those funds will be replenished. This decrease will not only be in revenues but also eliminate the inflationary growth which helps cover increasing expenses. The challenge for the School District Administration and Board of Education is to provide quality education with fewer monies available to spend. Reductions in staff were done at the end of 2003 and 2004 school years with a closing of a school building during 2004. The school closing allowed the Administration to relocate back into the Oaklief Elementary Building, which also saved the Board around \$50,000 in rent and utilities. Signs of a turnaround in the economy have occurred with the collection of income taxes and local business reports. A Super Wal-Mart is to open for business in late April 2005 within our community and will bring with it some additional retail stores and employment.

During fiscal year 2004, reductions in staff started to take effect to bring expenditures under control. A fourth grade teacher at the elementary school, and two teachers and a media center position was eliminated at the middle school. Also, the amount of summer employees was drastically reduced.

Contacting the School District's Financial Management

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,395,003
Accounts Receivable	14,428
Accrued Interest Receivable	1,424
Intergovernmental Receivable	220,343
Income Taxes Receivable	624,549
Prepaid Items	37,109
Inventory Held for Resale	14,175
Materials and Supplies Inventory	2,720
Property Taxes Receivable	4,484,250
Nondepreciable Capital Assets	638,639
Depreciable Capital Assets, Net	<u>2,514,949</u>
 Total Assets	 <u>12,947,589</u>
Liabilities:	
Accounts Payable	42,298
Accrued Wages and Benefits Payable	1,559,852
Intergovernmental Payable	420,185
Deferred Revenue	4,076,257
Long-Term Liabilities:	
Due Within One Year	93,367
Due in More Than One Year	<u>1,011,140</u>
 Total Liabilities	 <u>7,203,099</u>
Net Assets:	
Invested in Capital Assets	3,153,588
Restricted For:	
Set Asides	68,364
Other Purposes	222,233
Capital Projects	4,162
Unrestricted	<u>2,296,143</u>
 Total Net Assets	 <u><u>\$5,744,490</u></u>

See Accompanying Notes to Basic Financial Statements.

KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest		Capital Grants and Contributions
Governmental Activities:					
Instruction:					
Regular	\$8,766,810	\$111,553	\$973,275	\$51,700	(\$7,630,282)
Special	2,031,719		1,262,764		(768,955)
Vocational	311,538		47,038		(264,500)
Support Services:					
Pupils	525,523		7,792		(517,731)
Instructional Staff	664,072				(664,072)
Board of Education	35,947				(35,947)
Administration	1,511,318				(1,511,318)
Fiscal	444,251				(444,251)
Operation and Maintenance of Plant	1,501,555				(1,501,555)
Pupil Transportation	635,869	28,960	15,502	10,159	(581,248)
Central	26,209				(26,209)
Non-Instructional Services	766,777	373,357	331,145		(62,275)
Extracurricular Activities	215,525	195,342	2,035		(18,148)
Total Governmental Activities	\$17,437,113	\$709,212	\$2,639,551	\$61,859	(14,026,491)
 General Revenues:					
					4,486,047
Property Taxes Levied for General Purposes					1,549,548
Income Taxes					7,465,950
Grants and Entitlements not Restricted to Specific Programs					61,936
Interest					78,169
Miscellaneous					13,641,650
Total General Revenues					384,841
Change in Net Assets					6,129,331
Net Assets Beginning of Year					\$5,744,490
Net Assets End of Year					

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,051,866	\$241,643	\$4,293,509
Accounts Receivable	14,276	152	14,428
Accrued Interest Receivable	1,419	5	1,424
Interfund Receivable	118,168		118,168
Intergovernmental Receivable	29,715	190,628	220,343
Income Taxes Receivable	624,549		624,549
Prepaid Items	36,858	251	37,109
Inventory Held for Resale		14,175	14,175
Materials and Supplies Inventory		2,720	2,720
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	101,494		101,494
Property Taxes Receivable	4,484,250		4,484,250
Total Assets	<u><u>9,462,595</u></u>	<u><u>449,574</u></u>	<u><u>9,912,169</u></u>
Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	32,527	9,771	42,298
Accrued Wages and Benefits Payable	1,400,653	159,199	1,559,852
Interfund Payable		118,168	118,168
Intergovernmental Payable	287,248	10,566	297,814
Deferred Revenue	4,300,080	27,052	4,327,132
Total Liabilities	<u><u>6,020,508</u></u>	<u><u>324,756</u></u>	<u><u>6,345,264</u></u>
Fund Balances:			
Reserved for Property Taxes	312,721		312,721
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	33,130		33,130
Reserved for Encumbrances	260,560	23,744	284,304
Unreserved, Reported in:			
General Fund	2,767,312		2,767,312
Special Revenue Funds		100,806	100,806
Capital Projects		268	268
Total Fund Balances	<u><u>3,442,087</u></u>	<u><u>124,818</u></u>	<u><u>3,566,905</u></u>
Total Liabilities and Fund Balances	<u><u>\$9,462,595</u></u>	<u><u>\$449,574</u></u>	<u><u>\$9,912,169</u></u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balances		\$3,566,905
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, not reported in the funds.		
		3,153,588
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	9,577	
Accrued Interest Receivable	5	
Intergovernmental Receivable	37,442	
Income Taxes Receivable	108,579	
Property Taxes Receivable	<u>95,272</u>	
Total		250,875
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.		
		(122,371)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Compensated Absences Payable		<u>(1,104,507)</u>
Net Assets of Governmental Activities		<u><u>\$5,744,490</u></u>

See Accompanying Notes to the Basic Financial Statements

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$4,492,304		\$4,492,304
Income Taxes	1,546,181		1,546,181
Intergovernmental	8,058,242	1,473,377	9,531,619
Interest	60,517	171	60,688
Tuition and Fees	772,727		772,727
Extracurricular Activities		195,342	195,342
Charges for Services		373,603	373,603
Gifts and Donations		2,033	2,033
Miscellaneous	47,132	28,904	76,036
	<u>14,977,103</u>	<u>2,073,430</u>	<u>17,050,533</u>
Total Revenues			
Expenditures:			
Current:			
Instruction:			
Regular	8,337,314	341,603	8,678,917
Special	1,370,754	651,671	2,022,425
Vocational	304,976		304,976
Support Services:			
Pupils	498,282	16,927	515,209
Instructional Staff	421,014	221,912	642,926
Board of Education	35,947		35,947
Administration	1,463,706	20,951	1,484,657
Fiscal	431,212		431,212
Operation and Maintenance of Plant	1,649,029		1,649,029
Pupil Transportation	613,608	298	613,906
Central	25,316	893	26,209
Non-Instructional Services		754,875	754,875
Extracurricular Activities		244,549	244,549
	<u>15,151,158</u>	<u>2,253,679</u>	<u>17,404,837</u>
Total Expenditures			
	<u>(174,055)</u>	<u>(180,249)</u>	<u>(354,304)</u>
Revenues (Under) Expenditures			
Other Financing Sources (Uses):			
Transfers In		35,485	35,485
Transfers Out	(35,485)		(35,485)
	<u>(35,485)</u>	<u>35,485</u>	<u></u>
Total Other Financing Sources (Uses)			
	<u>(209,540)</u>	<u>(144,764)</u>	<u>(354,304)</u>
Net Change in Fund Balances			
	<u>3,651,627</u>	<u>269,582</u>	<u>3,921,209</u>
Fund Balances at Beginning of Year			
	<u>\$3,442,087</u>	<u>\$124,818</u>	<u>\$3,566,905</u>
Fund Balances at End of Year			

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds (\$354,304)

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 exceeds depreciation in the current year:

Capital Outlay	346,886	
Depreciation	<u>(331,823)</u>	
 Total		 15,063

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed, resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets (1,030)

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

Property Taxes	(6,257)	
Income Taxes	3,367	
Intergovernmental	17,319	
Interest	1,417	
Tuition and Fees	5,597	
Miscellaneous	<u>2,133</u>	
 Total		 23,576

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(3,458)	
Compensated Absences Payable	<u>(64,688)</u>	
 Total		 <u>(68,146)</u>

Change in Net Assets of Governmental Activities (\$384,841)

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30 , 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$4,445,878	\$4,441,550	\$4,477,735	\$36,185
Income Taxes	1,525,100	1,505,000	1,505,416	416
Intergovernmental	8,134,225	8,033,931	8,063,053	29,122
Interest	80,000	63,000	62,451	(549)
Tuition and Fees	749,385	760,598	759,172	(1,426)
Miscellaneous	12,300	29,000	29,887	887
Total Revenues	14,946,888	14,833,079	14,897,714	64,635
Expenditures:				
Current:				
Instruction:				
Regular	8,646,218	9,144,896	8,440,591	704,305
Special	1,386,693	1,463,800	1,369,165	94,635
Vocational	306,381	309,790	304,293	5,497
Support Services:				
Pupils	581,615	563,163	515,490	47,673
Instructional Staff	595,806	585,224	438,948	146,276
Board of Education	45,800	45,800	35,671	10,129
Administration	1,554,403	1,573,259	1,463,822	109,437
Fiscal	514,826	516,226	440,144	76,082
Operation and Maintenance of Plant	2,260,232	2,228,562	1,757,212	471,350
Pupil Transportation	731,204	736,129	657,288	78,841
Central	30,000	30,000	25,316	4,684
Total Expenditures	16,653,178	17,196,849	15,447,940	1,748,909
Excess of Revenues (Under) Expenditures	(1,706,290)	(2,363,770)	(550,226)	1,813,544
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	3,000	24,500	23,503	(997)
Other Financing Sources	1,000	5,140	4,640	(500)
Advances In	100,000	200,410	169,975	(30,435)
Advances Out	(100,000)	(168,140)	(221,643)	(53,503)
Transfers Out	(78,000)	(70,860)	(28,785)	42,075
Total Other Financing Sources (Uses)	(74,000)	(8,950)	(52,310)	(43,360)
Net Change in Fund Balance	(1,780,290)	(2,372,720)	(602,536)	1,770,184
Fund Balance at Beginning of Year	4,075,170	4,075,170	4,075,170	
Prior Year Encumbrances Appropriated	392,309	392,309	392,309	
Fund Balance at End of Year	\$2,687,189	\$2,094,759	\$3,864,943	\$1,770,184

See Accompanying Notes to the Basic Financial Statements.

KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$9,908</u>	<u>\$19,842</u>
Liabilities:		
Due to Students		<u>\$19,842</u>
Net Assets:		
Scholarships	9,600	
Held in Trust for Students	<u>308</u>	
Total Net Assets	<u>\$9,908</u>	

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Donations	\$10,600
Deductions:	
Non-Instructional Services	<u>799</u>
Change in Net Assets	9,801
Net Assets at Beginning of Year	<u>107</u>
Net Assets at End of Year	<u><u>\$9,908</u></u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 and 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 268th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-nine classified employees, one hundred and fifty-four certified teaching personnel, and nineteen administrative employees who provide services to 2,144 students and other community members. The School District currently operates eleven instructional/support buildings.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the 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. As of June 30, 2004, there are no component units of the School District.

The School District participates in three jointly governed organizations and three insurance pools. These organizations are the Ohio Hi-Point Joint Vocational School, West Central Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Ohio School Plan, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's only major fund is the General Fund.

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

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

2. Fiduciary Funds

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

C. Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

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

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions

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

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

2. Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

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 2004 was \$60,517, which includes \$3,021 assigned from other School District funds.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

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

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

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

O. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, budget stabilization, bus purchase, and encumbrances.

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

P. Interfund Transactions

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

Q. Extraordinary and Special Items

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

R. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School Districts' financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. ACCOUNTABILITY

Accountability

At June 30, 2004, the Food Service, Idea B, Title I, Title VI-R, and Title II-D special revenue funds had deficit balances in the amount of \$13,801, \$10,164, \$30,135, \$4,182 and \$3,820, respectively resulting from adjustments for accrued liabilities. The General fund provides transfers to cover deficit balances, however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balance
GAAP Basis	(\$209,540)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	800,461
Accrued FY 2004, Not Yet Received in Cash	(854,129)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(1,740,491)
Accrued FY 2004, Not Yet Paid in Cash	1,720,428
Cash Adjustments:	
Unrecorded Activity in FY 2003	2,422
Prepaid Items	11,698
Advances In	169,975
Advances Out	(221,643)
Transfers Out	6,700
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(288,417)
Budget Basis	<u><u>(\$ 602,536)</u></u>

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury.

Such 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.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies 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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. 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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$100 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". The School District had no investments at fiscal year end.

At fiscal year end, the carrying amount of the School District's deposits was \$4,424,653 and the bank balance was \$4,666,950. Of the bank balance, \$101,500 was covered by federal depository insurance and \$4,565,450 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

7. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
US Treasury	\$4,421
State of Ohio	312
Hardin County Educational Service Center	10,395
Xenia Community School	14,587
Total General Fund	29,715
Other Governmental Funds	
Idea B	34,109
Title I	107,743
Title V	4,963
Title II-A	33,789
Title II-D	10,024
Total Other Governmental Funds	190,628
Total Intergovernmental Receivables	\$220,343

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. INCOME TAXES

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

9. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, 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, 2004, was \$312,721 in the General Fund. The amount available as an advance at June 30, 2003, was \$298,152 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 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$107,387,890	54.54%	\$108,992,470	55.58%
Industrial/Commercial	35,209,600	17.88	35,524,480	18.11
Public Utility	8,850,500	4.50	8,856,510	4.52
Tangible Personal	45,447,265	23.08	42,727,058	21.79
Total Assessed Value	<u>\$196,895,255</u>	<u>100.00%</u>	<u>\$196,100,518</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$34.20	

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$638,639	\$0	\$0	\$638,639
Construction in Progress	38,393	17,714	(56,107)	0
Total Nondepreciable Capital Assets	<u>677,032</u>	<u>17,714</u>	<u>(56,107)</u>	<u>638,639</u>
Depreciable Capital Assets				
Land Improvements	\$606,661	\$86,300	\$0	\$692,961
Buildings and Building Improvements	3,344,723	24,375	0	3,369,098
Furniture and Fixtures	2,022,195	195,439	(15,532)	2,202,102
Equipment	128,437	23,058	(7,878)	143,617
Vehicles	908,041	56,107	(35,308)	928,840
Infrastructure	15,850	0	0	15,850
Total Depreciable Capital Assets	<u>7,025,907</u>	<u>385,279</u>	<u>(58,718)</u>	<u>7,352,468</u>

(continued)

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. CAPITAL ASSETS (Continued)

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Less Accumulated Depreciation				
Land Improvements	(295,279)	(25,321)	0	(320,600)
Buildings and Building Improvements	(2,225,742)	(98,808)	0	(2,324,550)
Furniture and Fixtures	(1,359,892)	(149,805)	15,532	(1,494,165)
Equipment	(76,729)	(9,101)	7,878	(77,952)
Vehicles	(605,170)	(48,260)	34,278	(619,152)
Infrastructure	(572)	(528)	0	(1,100)
Total Accumulated Depreciation	<u>(4,563,384)</u>	<u>(331,823)</u>	<u>57,688</u>	<u>(4,837,519)</u>
Depreciable Capital Assets, Net	<u>2,462,253</u>	<u>(53,456)</u>	<u>(1,030)</u>	<u>2,514,949</u>
Governmental Activities				
Capital Assets, Net	<u>\$3,139,555</u>	<u>\$71,170</u>	<u>(\$57,137)</u>	<u>\$3,153,588</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$156,235
Special	6,241
Vocational	3,268
Support Services:	
Pupils	11,027
Instructional Staff	16,621
Administration	9,220
Fiscal	7,093
Operation and Maintenance of Plant	56,795
Pupil Transportation	38,501
Non-Instructional Services	9,453
Extracurricular Activities	17,369
Total Depreciation Expense	<u>\$331,823</u>

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2004, the General Fund had an interfund receivable from other governmental funds, in the amount of \$118,168, to provide cash flow resources until the receipt of grant monies.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. RISK MANAGEMENT (Continued)

For fiscal year 2004, the School District participated in the Ohio School Plan ("Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

Coverage provided by the Ohio School Plan is as follows:

Property	\$43,615,500
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Stop Gap	1,000,000
Employee Benefits	
Per Claim	1,000,000
Aggregate	3,000,000
Errors and Omissions	
Per Injury	1,000,000
Aggregate	2,000,000
Excess Liability	1,000,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000

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

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 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002, was \$1,018,397, \$1,017,659, and \$709,109, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$8,564 made by the School District and \$13,205 made by plan members.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$175,154, \$154,021, and \$96,259, respectively; 48 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

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, 2004, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$78,997.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who qualify.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$124,149 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

15. EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

16. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
Compensated Absences Payable	\$1,039,819	\$118,172	\$53,484	\$1,104,507	\$93,367

Compensated Absences will be paid from the General fund and the Food Services special revenue fund.

The School District's overall debt margin was \$17,649,047 with an unvoted debt margin of \$196,101 at June 30, 2004.

17. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2004.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2003	(\$249,230)	\$0	\$68,364
Current Year Set Aside Requirement	299,835	299,835	0
Qualifying Expenditures	(571,979)	(299,835)	0
Balance Carried Forward to Fiscal Year 2004	<u>(\$521,374)</u>	<u>\$0</u>	<u>\$68,364</u>
Set Aside Reserve Balance June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$68,364</u>

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

18. INTERFUND TRANSFERS

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$35,485, to subsidize various programs in other funds.

19. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Joint Vocational School

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

B. West Central Regional Professional Development Center

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

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

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent of the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326-2385.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

20. INSURANCE POOLS

A. Ohio School Plan

The School District participates in the Ohio School Plan ("Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

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

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

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

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

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

21. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

22. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

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 EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$83,156		\$83,156
School Breakfast Program	05-PU 03	10.553	7,504		7,504	
	05-PU 04		26,212		26,212	
Total School Breakfast Program			33,716		33,716	
National School Lunch Program	LL-P4 03	10.555	57,869		57,869	
	LL-P4 04		176,372		176,372	
Total School Lunch Program			234,241		234,241	
Total U.S. Department of Agriculture - Nutrition Cluster			267,957	83,156	267,957	83,156
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 03	84.010	81,329		102,204	
	C1-S1 04		440,857		446,785	
Total Title I Grants to Local Educational Agencies			522,186		548,989	
Special Education Grants to States	6B-SF 03P	84.027	64,927		24,489	
	6B-SF 04P		245,737		270,830	
Total Special Education Grants to States			310,664		295,319	
Safe and Drug Free Schools and Communities State Grants	DR-S1 03	84.186	3,801		2,436	
	DR-S1 04		17,002		15,432	
Total Safe and Drug Free Schools and Communities State Grants			20,803		17,868	
Innovative Education Program Strategies	C2-S1 04	84.298	6,872		11,851	
Education Technology State Grants	TJ-S1-03	84.318	(2,432)		2,083	
	TJ-S1-04		17,066		17,102	
Total Education Technology State Grants			14,634		19,185	
Improving Teacher Quality State Grants	TR-S1-03	84.367	12,969		19,334	
	TR-S1-04		93,563		110,315	
Total Improving Teacher Quality State Grants			106,532		129,649	
Total U.S. Department of Education			981,691		1,022,861	
Total Federal Assistance			\$1,249,648	\$83,156	\$1,290,818	\$83,156

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - BASIS OF ACCOUNTING

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

NOTE C - REIMBURSEMENT GRANTS

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

NOTE D - FOOD DONATION PROGRAM

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

NOTE E - TRANSFER OF FUNDS BETWEEN COST CENTERS

The following transfers between fund cost centers were approved by the Ohio Department of Education. In some instances, the amount of the transfer results in a negative receipt on the schedule of federal awards expenditures.

Grant and CFDA # / Fund, Cost Center	Transfer out	Transfer in
Title 1, Part A, ESEA - CFDA # 84.010	\$	
572-9003	(45,598)	
572-9004		\$ 45,598
Safe and Drug Free Schools State Grant		
584-9003	(1,570)	
584-9004		1,570
Education Technology State Grants		
599-2003	(3,783)	
599-2004		3,783



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and aggregate remaining fund information of the Kenton City School District, Hardin County, (the "School District"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated March 30, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 30, 2005.

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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

March 30, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Kenton City School District, Hardin County, (the "School District"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

As described in item 2004-001 in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, and reporting that are applicable to its Improving Teacher Quality State Grant federal program. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to this program. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the School District in a separate letter dated March 30, 2005.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004.

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Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 30, 2005.

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



Betty Montgomery
Auditor of State

March 30, 2005

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2004
OMB CIRCULAR A -133 ' .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.027: Special Education Grants to States CFDA # 84.367: Improving Teacher Quality State Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2004-001
CFDA Title and Number	Improving Teacher Quality State Grants CFDA #84.367
Federal Award Number/Year	044172 – TR-S1-03 Fiscal Year 2003 044172 – TR-S1-04 Fiscal Year 2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting

Elementary and Secondary Education Act (ESEA) Section 2123(a) 2 (B) allows a local educational agency to recruit and hire highly qualified teachers to reduce class size. **Circular A-87, Attachment A, paragraph C1 (b)** states that costs must pertain to federal awards under the provisions of A-87. **Ohio Department of Education’s Final Expenditure Report Instructions #2 – Amounts Expended** states that the District must report by object and function code the amount actually expended.

The School District’s final expenditure report included \$10,589 of expenditures that were the result of an adjustment in the amount of \$7,976 from the General Fund to the 2003 Title II-A Grant Fund (590-2003), and \$2,613 from the General Fund to the 2004 Title II-A Grant Fund (590-2004). The expenditures adjusted did not pertain to the employees approved to be paid from the grant. As a result of adjusting unsupported expenditures to these grant funds, the School District was able to retain grant money that possibly should have been returned to the grantor agency.

Based on these facts, questioned costs in the amount of \$10,589 for project numbers 044172 – TR-S1-03 and 044172 – TR-S1-04 are being issued.

The School District should implement control procedures to help assure that any adjustments of expenditures into a grant fund can be supported as necessary for the performance of the grant. The Audit Committee should periodically review and approve adjustments between funds.



**Auditor of State
Betty Montgomery**

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KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**