

# ***AUDIT REPORT***

***JULY 1, 2002 THROUGH JUNE 30, 2003***



***KENT CITY***  
***SCHOOL DISTRICT***  
***PORTAGE COUNTY***

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**MOORE STEPHENS APPLE**  
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS





**Auditor of State  
Betty Montgomery**

Board of Education  
Kent City School District

We have reviewed the Independent Auditor's Report of the Kent City School District, Portage County, prepared by Moore Stephens Apple, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 20, 2004

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**KENT CITY SCHOOL DISTRICT  
PORTAGE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2003**

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Kent City School District  
Kent, Ohio 44240

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these 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 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 government activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, 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.

As described in Note 3 A, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and Interpretation No. 6 and changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the 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's 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 District's basic financial statements. The federal awards expenditure schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information 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.

*Moore Stephens Apple*

Akron, Ohio  
December 17, 2003

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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This discussion and analysis of Kent 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, 2003. 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data are not available. Future Management Discussion and Analyses will be comparative.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- Net assets of governmental activities decreased \$385,109, representing a 2.5% decrease from fiscal year 2002.
- General revenues accounted for \$34,855,168 in revenue or 88% of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$4,695,892 or 12% of total revenues of \$39,551,060.
- The School District had \$39,936,169 in expenses related to governmental activities; only \$4,695,892 of these expenses was offset by program specific charges for services, operating grants, contributions and interest. General revenues of \$34,855,168 contributed to support these programs.
- The School District's only major governmental fund is the general fund. The general fund had \$33,839,236 in revenues and other financing sources and \$35,551,837 in expenditures and other financing uses. The general fund's fund balance decreased \$1,712,601 from \$5,373,534 to \$3,660,933.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Kent City School District as a financial whole, or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *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 the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Kent City School District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This accrual basis takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two 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 if, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's current 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*, the School District's activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service operations.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these 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 money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called 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 fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

**Kent City School District**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2003  
 Unaudited

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**The School District as a Whole**

The *Statement of Net Assets* provides the perspective of the School District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

Table 1 provides a summary of the School District's net assets for 2003:

|  | <i>Table 1</i>                        |
|--|---------------------------------------|
|  | <i>Net Assets</i>                     |
|  | <u><i>Governmental Activities</i></u> |
|  | <u><i>2003</i></u>                    |
| <b><i>Assets</i></b>                           |                                       |
| <i>Current and other assets</i>                | \$ 33,591,889                         |
| <i>Capital assets, net of depreciation</i>     | 30,527,761                            |
| <i>Total assets</i>                            | <u>64,119,650</u>                     |
| <b><i>Liabilities</i></b>                      |                                       |
| <i>Current liabilities</i>                     | 27,654,472                            |
| <i>Long-term liabilities</i>                   | 21,623,449                            |
| <i>Total liabilities</i>                       | <u>49,277,921</u>                     |
| <b><i>Net Assets</i></b>                       |                                       |
| <i>Invested in capital assets, net of debt</i> | 10,492,312                            |
| <i>Restricted</i>                              | 902,408                               |
| <i>Unrestricted</i>                            | 3,447,009                             |
| <i>Total net assets</i>                        | <u>\$ 14,841,729</u>                  |

Table 2 shows changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

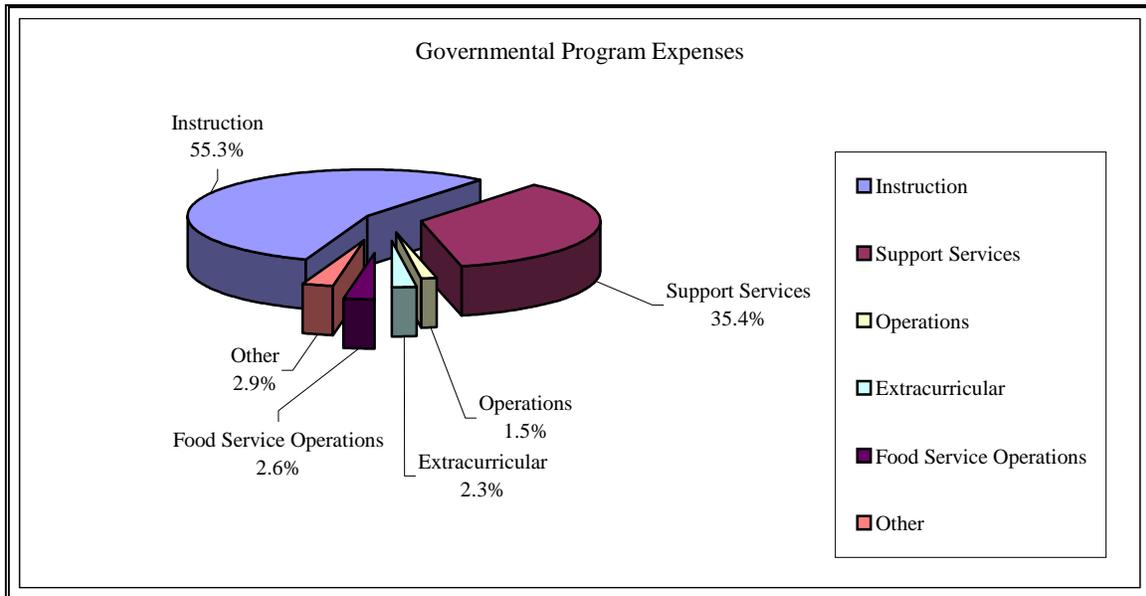
**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

*Table 2*  
*Changes in Net Assets*

|   | <u>Governmental<br/>Activities 2003</u> |
|---|---|
| <b>Revenues</b>                                     |   |
| <i>Program revenues</i>                             |   |
| <i>Charges for services</i>                         | \$ 1,919,163                            |
| <i>Operating grants, contributions and interest</i> | 2,775,386                               |
| <i>Capital grants and contributions</i>             | 1,343                                   |
| <i>General revenues</i>                             |   |
| <i>Property taxes</i>                               | 19,250,595                              |
| <i>Grants and entitlements</i>                      | 14,916,738                              |
| <i>Investment earnings</i>                          | 178,018                                 |
| <i>Miscellaneous</i>                                | 509,817                                 |
| <i>Total revenues</i>                               | <u>39,551,060</u>                       |
| <br><b>Program Expenses</b>                         |   |
| <i>Instruction</i>                                  |   |
| <i>Regular</i>                                      | 15,872,723                              |
| <i>Special</i>                                      | 4,460,486                               |
| <i>Vocational</i>                                   | 1,367,697                               |
| <i>Adult/continuing</i>                             | 72,182                                  |
| <i>Other</i>  | 294,336                                 |
| <i>Special services</i>                             |   |
| <i>Pupil</i>  | 1,963,707                               |
| <i>Instructional staff</i>                          | 2,958,414                               |
| <i>Board of education</i>                           | 257,653                                 |
| <i>Administration</i>                               | 2,580,463                               |
| <i>Fiscal</i>                                       | 788,464                                 |
| <i>Business</i>                                     | 424,252                                 |
| <i>Operation and maintenance of plant</i>           | 3,477,151                               |
| <i>Pupil transportation</i>                         | 1,375,613                               |
| <i>Central</i>                                      | 299,012                                 |
| <i>Operation non-instructional services</i>         | 616,538                                 |
| <i>Extracurricular activities</i>                   | 936,891                                 |
| <i>Food service operations</i>                      | 1,025,465                               |
| <i>Interest and fiscal charges</i>                  | 1,165,122                               |
| <i>Total expenses</i>                               | <u>39,936,169</u>                       |
| <i>Decrease in Net Assets</i>                       | (385,109)                               |
| <i>Net Assets, July 1</i>                           | <u>15,226,838</u>                       |
| <i>Net Assets, June 30</i>                          | <u>\$ 14,841,729</u>                    |

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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***Governmental Activities***

Kent City School District depends on both property taxes and State funding.

Several revenue sources fund our governmental activities, with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$19.2 million in 2003. General revenues from grants and entitlements, such as the school foundation program, generated over \$14.9 million. Due to the combination of taxes and intergovernmental funding representing over 86% of all revenues, the School District monitors both of these sources very closely for fluctuations.

The Ohio State Supreme Court DeRolph decision has not eliminated the dependence on property taxes. The community has supported the Kent City School District by voting levies comprising 48.7% of total revenues for the School District.

A review of Table 2 reflects the total cost of instructional services was \$22,067,424 or 55.3% of governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil. Pupil services and instructional staff include the activities involved in assisting staff and the content and process of teaching to pupils. These expenses represent \$4,922,121 of the total governmental program expenses, or 12.3%.

Board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the school district. The total cost was \$4,050,832 or 10.1% of governmental program expenses.

Operation and maintenance of plant expenses refer to the care and upkeep of the buildings, grounds, equipment and the safety of the School District's operations. The total cost for the operation and maintenance services was \$3,477,151 or 8.7% of the governmental program expenses.

**Kent City School District**  
Management's Discussion and Analysis  
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Pupil transportation expenses are expenses related to the transportation of students to and from school, as well as the service and maintenance of those vehicles. Total transportation cost was \$1,375,613 or 3.4% of the total governmental program expenditures.

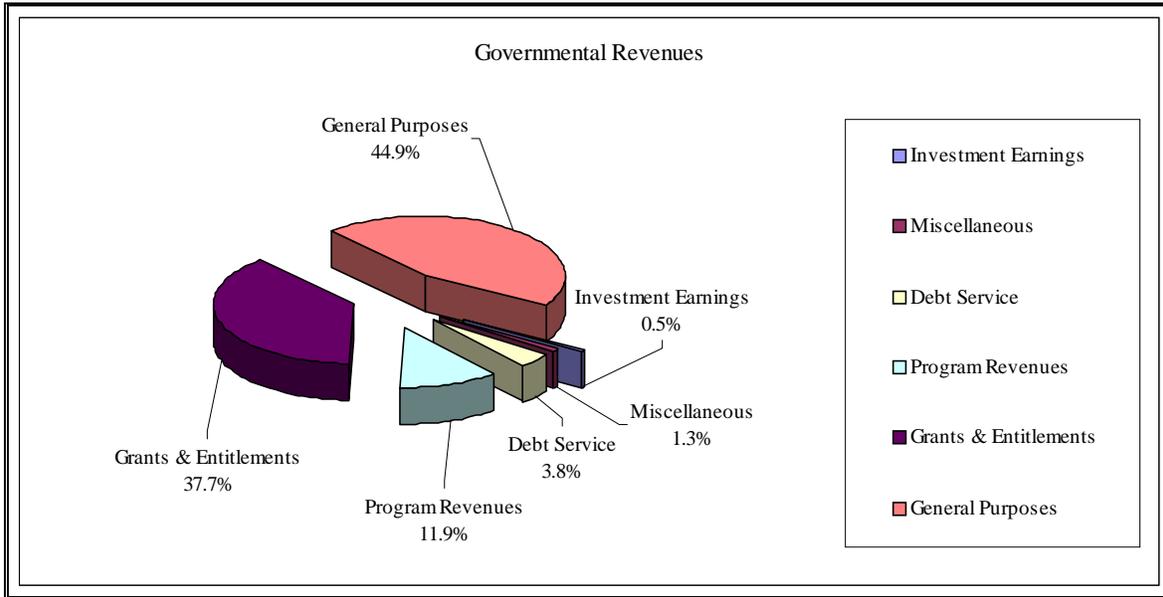
Net assets of the School District's governmental activities decreased by \$385,109. This decrease is attributed to insufficient revenues to cover the operational costs of the School District during the current fiscal year. A new 7.9 mill continuing property tax operating levy was approved by School District voters in May, 2002 for first collection in calendar year 2003. Therefore, in fiscal year 2003 the School District received only a partial year of revenue from the new operating levy proceeds.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to fiscal year 2002 are not available due to fiscal year 2003 being the initial year of implementation of GASB Statement No. 34.

*Table 3*  
*Governmental Activities*

|   | <i>Total Cost<br/>of Services<br/>2003</i> | <i>Net Cost<br/>of Services<br/>2003</i> |
|---|--|--|
| <b><i>Program Expenses:</i></b>             |  |  |
| <i>Instruction</i>                          |  |  |
| <i>Regular</i>                              | \$ 15,872,723                              | \$ (14,882,520)                          |
| <i>Special</i>                              | 4,460,486                                  | (3,376,379)                              |
| <i>Vocational</i>                           | 1,367,697                                  | (1,059,667)                              |
| <i>Adult/continuing</i>                     | 72,182                                     | (72,182)                                 |
| <i>Other</i>                                | 294,336                                    | (294,336)                                |
| <i>Special services</i>                     |  |  |
| <i>Pupil</i>                                | 1,963,707                                  | (1,811,111)                              |
| <i>Instructional staff</i>                  | 2,958,414                                  | (2,422,289)                              |
| <i>Board of education</i>                   | 257,653                                    | (257,653)                                |
| <i>Administration</i>                       | 2,580,463                                  | (2,571,528)                              |
| <i>Fiscal</i>                               | 788,464                                    | (788,464)                                |
| <i>Business</i>                             | 424,252                                    | (424,252)                                |
| <i>Operation and maintenance of plant</i>   | 3,477,151                                  | (3,477,151)                              |
| <i>Pupil transportation</i>                 | 1,375,613                                  | (1,328,512)                              |
| <i>Central</i>                              | 299,012                                    | (258,545)                                |
| <i>Operation non-instructional services</i> | 616,538                                    | (258,633)                                |
| <i>Extracurricular activities</i>           | 936,891                                    | (695,429)                                |
| <i>Food service operations</i>              | 1,025,465                                  | (97,847)                                 |
| <i>Interest and fiscal charges</i>          | 1,165,122                                  | (1,163,779)                              |
| <i>Total expenses</i>                       | \$ 39,936,169                              | \$ (35,240,277)                          |

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited



Program Revenues include charges for services, grants, contributions and interest that are program specific. Surrounding schools whose resident students are educated by the Kent City School District pay the School District tuition under Ohio's open enrollment entitlement. Special and Vocational Education program tuition is received for resident students of other districts who attend those programs in the School District.

Property taxes made up 48.7% of total revenues for governmental activities for the Kent City School District in fiscal year 2003. Program Revenues for governmental activities provided 11.9% of governmental revenues. The 37.7% provided by the grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920.

**The School District's Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$39,602,905 and total expenditures were \$41,543,132. The net change in fund balance for the year was most significant in the general fund with a decrease of \$1,712,601. This decrease is attributed to operational factors as previously mentioned and predicated the need for the additional 7.9 mill operating levy approved in May, 2002.

***General Fund Budgeting Highlights***

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

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
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During fiscal year 2003, the School District amended its general fund budget several times, however none were significant. Budget revisions become necessary as expenditure priorities change according to student, building and operational needs. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenue and other financing sources estimate was \$33,762,520, representing a decrease from the original budget estimate of \$34,239,563. The difference of \$477,043 is attributed to lower than originally-projected tangible personal property tax revenue and lower actual interest on investments.

General fund original appropriations of \$35,559,260 were increased slightly to \$35,729,187 in the final budget. Actual expenditures and other financing uses for fiscal year 2003 matched the final budget, and were slightly over the original budget primarily due to instructional costs paid to other school districts for special needs students.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2003, the School District had \$30,527,761 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002:

*Table 4*  
*Capital Assets at June 30, 2003*  
*(Net of Depreciation)*

|  | <u>Governmental Activities</u> |                      |
|--|--------------------------------|----------------------|
|  | <u>2003</u>                    | <u>2002</u>          |
| <i>Land</i>                              | \$ 1,470,690                   | \$ 1,470,690         |
| <i>Buildings and improvements</i>        | 26,026,884                     | 26,580,528           |
| <i>Furniture, fixtures and equipment</i> | 2,250,830                      | 2,437,808            |
| <i>Vehicles</i>                          | 779,357                        | 765,963              |
| <i>Total capital assets</i>              | <u>\$ 30,527,761</u>           | <u>\$ 31,254,989</u> |

During fiscal year 2003 the School District acquired \$914,771 in capital assets for buildings and improvements, equipment, and school buses. The net decrease in capital assets from fiscal year 2002 occurred due to an overstatement of assets in prior years.

**Debt Administration**

At June 30, 2003 the School District had \$18,909,185 in general obligation bonds outstanding and \$1,043,192 in capital leases with \$941,616 due within one year. Table 5 shows fiscal year 2003 balances compared to fiscal year 2002:

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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*Table 5*  
*Outstanding Debt, at Fiscal Year End*

|                                 | <i>Governmental Activities</i> |                      |
|---------------------------------|--------------------------------|----------------------|
|                                 | <u>2003</u>                    | <u>2002</u>          |
| <i>General obligation bonds</i> | \$ 18,909,185                  | \$ 19,772,185        |
| <i>Capital leases</i>           | 1,043,192                      | 1,205,755            |
| <i>Total outstanding debt</i>   | <u>\$ 19,952,377</u>           | <u>\$ 20,977,940</u> |

In 1995 the School District issued an Energy Conservation Improvement bond to pay the costs of installations, modifications and remodeling of school buildings to conserve energy. The bond is to be repaid from energy savings transferred from the general fund to the bond retirement fund debt service fund. The bond bears an interest rate of 5.25% and is scheduled to mature in 2005.

In 1997 the School District issued general obligation bonds for school improvements. The general obligation bonds are scheduled to mature in fiscal year 2022 and bear an interest rate of 5.81%.

In 1998 the School District issued general obligation bonds for school improvements. The general obligation bonds are also scheduled to mature in fiscal year 2022 and bear an interest rate of 5.09%.

The capital leases are to be repaid from the general fund, which the School District has budgeted to meet these requirements.

At June 30, 2003, the School District's overall legal debt margin was \$20,539,024 with a 9/10 of 1% unvoted debt margin of \$3,786,820 and a 1/10 of 1% unvoted debt margin of \$438,313. The School District maintains an A+ bond rating with Standard & Poor's and an A1 bond rating with Moody's Investors Service.

**Current Issues Affecting Financial Condition**

In fiscal year 2004 the School District plans to issue \$13,500,000 in general obligation bonds for an expansion project at the Kent Free Library. The School District is the taxing authority for the Kent Free Library. In November 2003, School District voters approved a 1.9 mill bond issue, with a maximum maturity of 27 years, to finance this construction project.

The School District had a General Fund cash balance of \$6,494,656 at June 30, 2003. Year-end General Fund cash balances were \$7,662,339, \$9,289,607, \$8,921,891 and \$7,970,304 in Fiscal Years 1999, 2000, 2001 and 2002, respectively.

The District first became eligible in fiscal year 1995 for additional State financial aid as the result of State-owned, tax-exempt property exceeding 25% of the District's total tax valuation. The additional aid is based on the difference between the amount of local property tax the District actually received and the higher amount it would receive if State facilities in the District paid property taxes. In recent years, the School District received such additional aid of \$1,638,383 in fiscal year 1998, and received \$1,674,948 relating to fiscal year 1999 in fiscal year 2000. Beginning in fiscal year 2000, such state aid has been incorporated into the State Foundation Program formula, for which the School District received \$1,571,155 in fiscal year 2000, \$1,936,738 in fiscal year 2001, and \$1,840,715 in fiscal year 2002, and \$1,813,906 in fiscal year 2003 as part of its State Foundation revenue. The additional State aid has been earmarked to enhance operating balances and to provide new instructional technology improvements.

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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The Board's projections indicate that its natural budget cycle needs will require additional operating income in Fiscal Year 2007. With Board guidance, the last two fiscal year budgets have been carefully managed in order to maximize the number of years between requests for additional millage and to minimize the size of the expected tax request. Two rounds of spending cuts have been implemented in the last year, in which some staff positions were eliminated or downsized and certain expenditures for materials and equipment were curtailed. A third round of spending reductions will be finalized in February 2004 for implementation beginning in fiscal year 2005.

All District operating levies for current expenses are for a continuing period of time and do not require periodic renewal by School District electors. The School District electorate has never defeated a Board request for additional operating millage. Most recently School District voters approved a new 7.9-mill continuing operating levy in May 2002, for first collection in calendar year 2003. That new levy is anticipated to generate approximately \$3.5 million annually.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion in the DeRolph case 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 on its future State funding and its financial operations. However, the biennial budget approved by the State of Ohio for fiscal years 2004 and 2005 did not prove favorable to the School District, as several changes in the funding formula negatively affected the School District's state allocation.

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. The negative state funding changes resulted in the rounds of spending reductions previously mentioned.

The Kent City School District has a long-term history of commitment to educational and financial excellence. The budgeting and internal controls utilized by the School District are well regarded by independent auditors, as exemplified by the unqualified audit opinions that have been received. The School District strives to maintain good stewardship of taxpayer-financed resources, and endeavors to honor the high respect that the community has long held for its School District.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deborah A. Krutz, Treasurer, Kent City School District, 321 North DePeyster Street, Kent, Ohio 44240 by phone (330) 677-6140 or e-mail [deborah.krutz@neonet.k12.oh.us](mailto:deborah.krutz@neonet.k12.oh.us).

# Kent City School District

## Statement of Net Assets

June 30, 2003

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|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>   |                                    |
| Equity in Pooled Cash and Cash Equivalents            | \$9,548,925                        |
| Receivables:  |                                    |
| Property Taxes Receivable                             | 23,893,353                         |
| Accounts Receivable                                   | 4,220                              |
| Intergovernmental Receivable                          | 27,138                             |
| Inventory Held for Resale                             | 47,318                             |
| Materials and Supplies Inventory                      | 70,935                             |
| Land  | 1,470,690                          |
| Other Capital Assets, Net of Accumulated Depreciation | <u>29,057,071</u>                  |
| <br><i>Total Assets</i>                               | <br><u><u>64,119,650</u></u>       |
| <br><b>Liabilities</b>                                |                                    |
| Accounts Payable                                      | 314,934                            |
| Accrued Wages and Benefits Payable                    | 2,809,536                          |
| Special Termination Benefits Payable                  | 19,930                             |
| Intergovernmental Payable                             | 981,405                            |
| Accrued Interest Payable                              | 83,070                             |
| Claims Payable  | 205,113                            |
| Deferred Revenue                                      | 23,240,484                         |
| Long-Term Liabilities:                                |                                    |
| Due Within One Year                                   | 975,848                            |
| Due In More Than One Year                             | <u>20,647,601</u>                  |
| <br><i>Total Liabilities</i>                          | <br><u><u>49,277,921</u></u>       |
| <br><b>Net Assets</b>                                 |                                    |
| Invested in Capital Assets, Net of Related Debt       | 10,492,312                         |
| Restricted for:                                       |                                    |
| Capital Projects                                      | 366,792                            |
| Debt Service  | 366,867                            |
| Other Purposes  | 168,749                            |
| Unrestricted  | <u>3,447,009</u>                   |
| <br><i>Total Net Assets</i>                           | <br><u><u>\$14,841,729</u></u>     |

See accompanying notes to the basic financial statements

**Kent City School District**  
Statement of Activities  
For the Fiscal year Ended June 30, 2003

|  | Program Revenues  |                                   |  | Net (Expense) Revenue<br>and Changes in Net Assets |                                     |
|--|-------------------|-----------------------------------|--|--|-------------------------------------|
|  | Expenses          | Charges for<br>Services and Sales | Operating Grants,<br>Contributions<br>and Interest | Capital Grants<br>and Contributions                | Total<br>Governmental<br>Activities |
| <b>Governmental Activities</b>                     |                   |                                   |  |  |                                     |
| <b>Instruction:</b>                                |                   |                                   |  |  |                                     |
| Regular  | \$15,872,723      | \$658,420                         | \$331,783  | \$0  | (\$14,882,520)                      |
| Special  | 4,460,486         | 19,587                            | 1,064,520  | 0  | (3,376,379)                         |
| Vocational   | 1,367,697         | 224,675                           | 83,355   | 0  | (1,059,667)                         |
| Adult/Continuing                                   | 72,182            | 0                                 | 0  | 0  | (72,182)                            |
| Other  | 294,336           | 0                                 | 0  | 0  | (294,336)                           |
| <b>Support Services:</b>                           |                   |                                   |  |  |                                     |
| Pupil  | 1,963,707         | 0                                 | 152,596  | 0  | (1,811,111)                         |
| Instructional Staff                                | 2,958,414         | 0                                 | 536,125  | 0  | (2,422,289)                         |
| Board of Education                                 | 257,653           | 0                                 | 0  | 0  | (257,653)                           |
| Administration                                     | 2,580,463         | 0                                 | 8,935  | 0  | (2,571,528)                         |
| Fiscal   | 788,464           | 0                                 | 0  | 0  | (788,464)                           |
| Business   | 424,252           | 0                                 | 0  | 0  | (424,252)                           |
| Operation and Maintenance of Plant                 | 3,477,151         | 0                                 | 0  | 0  | (3,477,151)                         |
| Pupil Transportation                               | 1,375,613         | 29,232                            | 17,869   | 0  | (1,328,512)                         |
| Central  | 299,012           | 0                                 | 40,467   | 0  | (258,545)                           |
| <b>Operation of Non-Instructional<br/>Services</b> |                   |                                   |  |  |                                     |
| Services   | 616,538           | 154,258                           | 203,647  | 0  | (258,633)                           |
| Food Service Operations                            | 1,025,465         | 591,529                           | 336,089  | 0  | (97,847)                            |
| Extracurricular Activities                         | 936,891           | 241,462                           | 0  | 0  | (695,429)                           |
| Interest and Fiscal Charges                        | 1,165,122         | 0                                 | 0  | 1,343  | (1,163,779)                         |
| <b>Totals</b>                                      | <b>39,936,169</b> | <b>1,919,163</b>                  | <b>2,775,386</b>                                   | <b>1,343</b>                                       | <b>(35,240,277)</b>                 |

**General Revenues**

Property Taxes Levied for:

|   |            |
|---|------------|
| General Purposes  | 17,767,650 |
| Debt Service  | 1,482,945  |
| Grants and Entitlements not Restricted to Specific Programs | 14,916,738 |
| Investment Earnings   | 178,018    |
| Miscellaneous   | 509,817    |

*Total General Revenues* 34,855,168

Change in Net Assets (385,109)

*Net Assets Beginning of Year - (See Note 3)* 15,226,838

*Net Assets End of Year* \$14,841,729

See accompanying notes to the basic financial statements

**Kent City School District  
Balance Sheet  
Governmental Funds  
June 30, 2003**

|   | General             | Other Governmental<br>Funds | Total               |
|---|---------------------|-----------------------------|---------------------|
| <b>Assets</b>                                 |                     |                             |                     |
| Equity in Pooled Cash and<br>Cash Equivalents | \$6,494,656         | \$1,485,986                 | \$7,980,642         |
| Receivables:                                  |                     |                             |                     |
| Property Taxes Receivable                     | 22,100,693          | 1,792,660                   | 23,893,353          |
| Accounts Receivable                           | 4,220               | 0                           | 4,220               |
| Intergovernmental Receivable                  | 27,138              | 0                           | 27,138              |
| Interfund Receivable                          | 7,585               | 0                           | 7,585               |
| Inventory Held for Resale                     | 0                   | 47,318                      | 47,318              |
| Materials and Supplies Inventory              | 67,754              | 3,181                       | 70,935              |
| <i>Total Assets</i>                           | <u>\$28,702,046</u> | <u>\$3,329,145</u>          | <u>\$32,031,191</u> |
| <b>Liabilities</b>                            |                     |                             |                     |
| Accounts Payable                              | \$89,604            | \$225,330                   | \$314,934           |
| Accrued Wages                                 | 2,578,274           | 231,262                     | 2,809,536           |
| Compensated Absences Payable                  | 34,232              | 0                           | 34,232              |
| Special Termination Benefits Payable          | 19,930              | 0                           | 19,930              |
| Intergovernmental Payable                     | 576,476             | 43,676                      | 620,152             |
| Interfund Payable                             | 0                   | 7,585                       | 7,585               |
| Deferred Revenue                              | 21,742,597          | 1,763,761                   | 23,506,358          |
| <i>Total Liabilities</i>                      | <u>25,041,113</u>   | <u>2,271,614</u>            | <u>27,312,727</u>   |
| <b>Fund Balances</b>                          |                     |                             |                     |
| Reserved for Encumbrances                     | 400,451             | 284,753                     | 685,204             |
| Reserved for Taxes                            | 358,096             | 32,933                      | 391,029             |
| Unreserved, Undesignated, Reported in:        |                     |                             |                     |
| General Fund                                  | 2,902,386           | 0                           | 2,902,386           |
| Special Revenue Funds                         | 0                   | 235,651                     | 235,651             |
| Debt Service Funds                            | 0                   | 318,694                     | 318,694             |
| Capital Projects Funds                        | 0                   | 185,500                     | 185,500             |
| <i>Total Fund Balances</i>                    | <u>3,660,933</u>    | <u>1,057,531</u>            | <u>4,718,464</u>    |
| <i>Total Liabilities and Fund Balances</i>    | <u>\$28,702,046</u> | <u>\$3,329,145</u>          | <u>\$32,031,191</u> |

See accompanying notes to the basic financial statements

**Kent City School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2003**

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|  |                  |
|--|------------------|
| <b>Total Governmental Funds Balances</b>   | \$4,718,464      |
| <br><i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>   |                  |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds   | 30,527,761       |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:<br>Property Taxes   | 265,874          |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | 1,363,170        |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:   |                  |
| Intergovernmental  | (361,253)        |
| Compensated Absences   | (1,636,838)      |
| Bonds Payable  | (18,909,185)     |
| Capital Lease Payable  | (1,043,194)      |
| Accrued Interest Payable   | (83,070)         |
|  | (22,033,540)     |
| <br><i>Net Assets of Governmental Activities</i>   | <br>\$14,841,729 |

**Kent City School District**  
**Statement of Revenue Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2003**

|  | General            | Other Governmental<br>Funds | Total Governmental<br>Funds |
|--|--------------------|-----------------------------|-----------------------------|
| <b>Revenues</b>  |                    |                             |                             |
| Taxes  | \$17,810,907       | \$1,491,533                 | \$19,302,440                |
| Intergovernmental  | 14,739,368         | 2,952,627                   | 17,691,995                  |
| Interest   | 177,371            | 2,119                       | 179,490                     |
| Tuition and Fees   | 931,914            | 154,258                     | 1,086,172                   |
| Extracurricular Activities   | 0                  | 241,462                     | 241,462                     |
| Charges for Services   | 0                  | 591,529                     | 591,529                     |
| Miscellaneous  | 179,676            | 330,141                     | 509,817                     |
| <i>Total Revenues</i>  | <u>33,839,236</u>  | <u>5,763,669</u>            | <u>39,602,905</u>           |
| <b>Expenditures</b>  |                    |                             |                             |
| <b>Current:</b>  |                    |                             |                             |
| <b>Instruction:</b>  |                    |                             |                             |
| Regular  | 15,701,682         | 476,874                     | 16,178,556                  |
| Special  | 3,471,825          | 1,016,444                   | 4,488,269                   |
| Vocational   | 1,545,257          | 18,421                      | 1,563,678                   |
| Adult/Continuing   | 1,330              | 75,675                      | 77,005                      |
| Other Instruction  | 295,338            | 0                           | 295,338                     |
| <b>Support Services:</b>   |                    |                             |                             |
| Pupil  | 1,841,643          | 142,093                     | 1,983,736                   |
| Instructional Staff  | 2,331,510          | 612,527                     | 2,944,037                   |
| Board of Education   | 257,040            | 0                           | 257,040                     |
| Administration   | 2,655,580          | 37,277                      | 2,692,857                   |
| Fiscal   | 745,691            | 0                           | 745,691                     |
| Business   | 406,390            | 0                           | 406,390                     |
| Operation and Maintenance of Plant                                 | 3,036,399          | 355,511                     | 3,391,910                   |
| Pupil Transportation   | 1,355,636          | 24,181                      | 1,379,817                   |
| Central  | 221,794            | 90,867                      | 312,661                     |
| Operation of Non-Instructional Services                            | 90,623             | 1,521,148                   | 1,611,771                   |
| Extracurricular Activities   | 610,000            | 273,776                     | 883,776                     |
| Capital Outlay   | 188,186            | 242,185                     | 430,371                     |
| <b>Debt Service:</b>   |                    |                             |                             |
| Principal  | 0                  | 863,000                     | 863,000                     |
| Interest and Fiscal Charges  | 0                  | 1,037,229                   | 1,037,229                   |
| <i>Total Expenditures</i>  | <u>34,755,924</u>  | <u>6,787,208</u>            | <u>41,543,132</u>           |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i>            | <u>(916,688)</u>   | <u>(1,023,539)</u>          | <u>(1,940,227)</u>          |
| <b>Other Financing Sources (Uses)</b>                              |                    |                             |                             |
| Advances In  | 4,751              | 4,751                       | 9,502                       |
| Advances Out   | (4,751)            | (4,751)                     | (9,502)                     |
| Transfers In   | 0                  | 795,913                     | 795,913                     |
| Transfers Out  | (795,913)          | 0                           | (795,913)                   |
| <i>Total Other Financing Sources (Uses)</i>                        | <u>(795,913)</u>   | <u>795,913</u>              | <u>0</u>                    |
| <i>Net Change in Fund Balances</i>                                 | (1,712,601)        | (227,626)                   | (1,940,227)                 |
| <i>Fund Balances Beginning<br/>of Year - Restated (See Note 3)</i> | 5,373,534          | 1,285,157                   | 6,658,691                   |
| <i>Fund Balances End of Year</i>                                   | <u>\$3,660,933</u> | <u>\$1,057,531</u>          | <u>\$4,718,464</u>          |

See accompanying notes to the basic financial statements

**Kent City School District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**In Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2003**

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**Net Change in Fund Balances - Total Governmental Funds** (\$1,940,227)

*Amounts reported for governmental activities in the statement of activities are different because*

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

|                           |           |           |
|---------------------------|-----------|-----------|
| Capital Asset Additions   | 914,774   |           |
| Current Year Depreciation | 1,642,002 | (727,228) |

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

|                |  |          |
|----------------|--|----------|
| Property Taxes |  | (51,845) |
|----------------|--|----------|

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

1,025,563

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

(83,070)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

|                           |          |         |
|---------------------------|----------|---------|
| Compensated Absences      | 568,391  |         |
| Intergovernmental Payable | (47,993) | 520,398 |

The internal service funds used by management to charge the the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

871,300

*Change in Net Assets of Governmental Activities*

(\$385,109)

See accompanying notes to the basic financial statements

**Kent City School District**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget (Non-GAAP) and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2003**

|   | Budgeted Amounts   |                    | Actual             | Variance with              |
|---|--------------------|--------------------|--------------------|----------------------------|
|   | Original           | Final              |                    | Final Budget               |
|   |                    |                    |                    | Favorable<br>(Unfavorable) |
| <b>Revenues</b>                                     |                    |                    |                    |                            |
| Property Taxes                                      | \$18,176,134       | \$17,736,942       | \$17,736,942       | \$0                        |
| Intergovernmental                                   | 15,020,568         | 14,739,368         | 14,739,368         | 0                          |
| Investment Income                                   | 300,000            | 175,459            | 177,757            | 2,298                      |
| Tuition and Fees                                    | 625,213            | 920,022            | 920,022            | 0                          |
| Transportation Fees                                 | 26,000             | 29,891             | 29,891             | 0                          |
| Other   | 91,648             | 107,135            | 108,327            | 1,192                      |
| <i>Total Revenues</i>                               | <u>34,239,563</u>  | <u>33,708,817</u>  | <u>33,712,307</u>  | <u>3,490</u>               |
| <b>Expenditures</b>                                 |                    |                    |                    |                            |
| Current:  |                    |                    |                    |                            |
| Instruction:  |                    |                    |                    |                            |
| Regular   | 15,886,401         | 15,625,665         | 15,625,665         | 0                          |
| Special   | 3,022,076          | 3,133,828          | 3,133,828          | 0                          |
| Vocational  | 1,851,288          | 1,861,356          | 1,861,356          | 0                          |
| Other   | 211,269            | 495,046            | 495,046            | 0                          |
| Support Services:                                   |                    |                    |                    |                            |
| Pupil   | 1,995,405          | 1,877,349          | 1,877,349          | 0                          |
| Instructional Staff                                 | 2,233,920          | 2,321,222          | 2,321,222          | 0                          |
| Board of Education                                  | 209,456            | 257,025            | 257,025            | 0                          |
| Administration                                      | 2,648,850          | 2,650,180          | 2,650,180          | 0                          |
| Fiscal  | 752,919            | 740,905            | 740,905            | 0                          |
| Business  | 410,729            | 399,525            | 399,525            | 0                          |
| Operation and Maintenance of Plant                  | 3,067,910          | 3,087,201          | 3,087,201          | 0                          |
| Pupil Transportation                                | 1,368,086          | 1,352,384          | 1,352,384          | 0                          |
| Central   | 223,008            | 227,328            | 227,328            | 0                          |
| Operation of Non-Instructional Services             | 76,689             | 91,353             | 91,353             | 0                          |
| Extracurricular Activities                          | 595,882            | 609,315            | 609,315            | 0                          |
| Facilities Acquisition and Construction Services    | 195,539            | 194,247            | 194,247            | 0                          |
| <i>Total Expenditures</i>                           | <u>34,749,427</u>  | <u>34,923,929</u>  | <u>34,923,929</u>  | <u>0</u>                   |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(509,864)</u>   | <u>(1,215,112)</u> | <u>(1,211,622)</u> | <u>3,490</u>               |
| <b>Other Financing Sources (Uses)</b>               |                    |                    |                    |                            |
| Refund of Prior Year Expenditures                   | 0                  | 48,952             | 48,952             | 0                          |
| Refund of Prior Year Receipts                       | (6,500)            | (1,760)            | (1,760)            | 0                          |
| Advances In   | 0                  | 4,751              | 4,751              | 0                          |
| Advances Out  | (20,000)           | (7,585)            | (7,585)            | 0                          |
| Transfers Out                                       | (783,333)          | (795,913)          | (795,913)          | 0                          |
| <i>Total Other Financing Sources (Uses)</i>         | <u>(809,833)</u>   | <u>(751,555)</u>   | <u>(751,555)</u>   | <u>0</u>                   |
| <i>Net Change in Fund Balance</i>                   | <u>(1,319,697)</u> | <u>(1,966,667)</u> | <u>(1,963,177)</u> | <u>3,490</u>               |
| <i>Fund Balance Beginning of Year</i>               | <u>7,477,720</u>   | <u>7,477,720</u>   | <u>7,477,720</u>   | <u>0</u>                   |
| Prior Year Encumbrances Appropriated                | <u>492,580</u>     | <u>492,580</u>     | <u>492,580</u>     | <u>0</u>                   |
| <i>Fund Balance End of Year</i>                     | <u>\$6,650,603</u> | <u>\$6,003,633</u> | <u>\$6,007,123</u> | <u>\$3,490</u>             |

See Accompanying Notes to the Basic Financial Statements

**Kent City School District  
Statement of Fund Net Assets  
Internal Service Fund  
June 30, 2003**

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Insurance

**Assets**

Equity in Pooled Cash and Cash Equivalents

\$1,568,283

**Liabilities**

Claims Payable

205,113

*Total Liabilities*

205,113

**Net Assets**

Unrestricted

1,363,170

*Total Net Assets*

\$1,363,170

See accompanying notes to the basic financial statements

**Kent City School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**June 30, 2003**

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|                                     | Insurance   | ONEnet<br>Connectivity | Totals      |
|-------------------------------------|-------------|------------------------|-------------|
| <b>Operating Revenues</b>           |             |                        |             |
| Charges for Services                | \$3,722,029 | \$0                    | \$3,722,029 |
| <b>Operating Expenses</b>           |             |                        |             |
| Claims Expense                      | 3,041,289   | 0                      | 3,041,289   |
| Purchased Goods                     | 0           | 21,000                 | 21,000      |
| <b>Total Operating Expenses</b>     | 3,041,289   | 21,000                 | 3,062,289   |
| <b>Net Operating Income (Loss)</b>  | 680,740     | (21,000)               | 659,740     |
| <b>Nonoperating Revenues</b>        |             |                        |             |
| Refund of Prior Year Expenditures   | 211,560     | 0                      | 211,560     |
| <i>Change in Net Assets</i>         | 892,300     | (21,000)               | 871,300     |
| <i>Net Assets Beginning of Year</i> | 470,870     | 21,000                 | 491,870     |
| <i>Net Assets End of Year</i>       | \$1,363,170 | \$0                    | \$1,363,170 |

See accompanying notes to the financial statements

**Kent City School District  
Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2003**

---

|   | Insurance          | ONenet<br>Connectivity | Totals             |
|---|--------------------|------------------------|--------------------|
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>   |                    |                        |                    |
| <b>Cash Flows from Operating Activities</b>   |                    |                        |                    |
| Cash Received from Interfund Services   | \$3,722,029        | \$0                    | \$3,722,029        |
| Cash Payments for Claims  | (3,289,394)        | 0                      | (3,289,394)        |
| Cash Payments for Goods and Services  | 0                  | (21,000)               | (21,000)           |
|   | <u>432,635</u>     | <u>(21,000)</u>        | <u>411,635</u>     |
| <i>Net Cash Provided by (Used in) Operating Activities</i>  |                    |                        |                    |
| <b>Cash Flows from Noncapital Financing Activities</b>  |                    |                        |                    |
| Refund of Prior Year Expenditures   | 211,560            | 0                      | 211,560            |
|   | <u>211,560</u>     | <u>0</u>               | <u>211,560</u>     |
| <i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>                                       |                    |                        |                    |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>   | 644,195            | (21,000)               | 623,195            |
| <i>Cash and Cash Equivalents Beginning of Year</i>  | <u>924,088</u>     | <u>21,000</u>          | <u>945,088</u>     |
| <i>Cash and Cash Equivalents End of Year</i>  | <u>\$1,568,283</u> | <u>\$0</u>             | <u>\$1,568,283</u> |
| <br><b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b> |                    |                        |                    |
| Operating Income (Loss)   | 680,740            | (21,000)               | 659,740            |
| Increase (Decrease) in Liabilities:   |                    |                        |                    |
| Claims Payable  | (248,105)          | 0                      | (248,105)          |
|   | <u>\$432,635</u>   | <u>(\$21,000)</u>      | <u>\$411,635</u>   |
| <i>Net Cash Provided by (Used in) Operating Activities</i>  |                    |                        |                    |

See accompanying notes to the basic financial statements

**Kent City School District**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**

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|  | <u>Agency</u>    |
|--|------------------|
| <b>Assets</b>                              |                  |
| Equity in Pooled Cash and Cash Equivalents | <u>\$100,284</u> |
| <b>Liabilities</b>                         |                  |
| Accounts Payable                           | 16,882           |
| Undistributed Monies                       | 10,986           |
| Due to Students                            | <u>72,416</u>    |
| <i>Total Liabilities</i>                   | <u>\$100,284</u> |

See accompanying notes to the basic financial statements

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**Note 1 - Description of the School District and Reporting Entity**

Kent City School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under an elected five-member Board form of government. Each member is elected to a four year term. The School District provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's eight instructional support facilities staffed by 237 classified employees, and 357 certificated full-time teaching personnel who provide services to 3,556 students and other community members.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that 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 Kent City School District, this includes general operations, food service, preschool, and student related activities of the School District.

**Nonpublic Schools** Within the School District boundaries, there is located the St. Patrick's School. Current State legislation provides for funding to this nonpublic school. These monies are received and disbursed by the School District on behalf of the nonpublic school by the Treasurer of the School District, as directed by the nonpublic school. The transactions are reported as a government activity of the School District.

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

The School District is associated with certain organizations which are defined as Jointly Governed Organizations, a Related Organization and an Insurance Purchasing Pool. They include the North East Ohio Network for Educational Technology, Vocational Compact, Ohio Schools Council, Kent Free Library, and the Ohio School Board Association Workers' Compensation Group Rating Program. These organizations are presented in Note 15, Note 16 and Note 17 to the financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary funds 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 statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal fund is presented in a single column on the face of the proprietary fund statement. The fiduciary funds are reported by fund 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. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

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

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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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 following are the School District's major governmental funds:

General Fund – The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The following is a description of the School Districts' internal service funds:

Self Insurance – This fund accounts for the revenues and expenses related to the provision of health benefits to School District employees.

Computer Network – This fund is provided to account for the operation of the computer network of the Department of Education.

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 therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund which reports resources that belong to the student bodies of the various schools.

**C. Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the 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.

***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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

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

**Revenues - Exchange and 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are 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 year when the resources are required to be used or the 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 a 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 to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

Expenditures/Expenses

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

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

**E. Budgetary Process**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control is at the function level for the general fund and fund level for the other funds.

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

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

**F. Cash and Investments**

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the proprietary fund are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2003 the School District's investments were limited to STAROhio, the State Teacher's Investment Pool and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating contracts such as certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share's price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has by resolution identified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$177,371, which includes \$33,901 assigned from other School District funds.

Investments of the cash management pool and investments with maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventories consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**I. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside.

**J. Capital Assets**

All capital assets of the School District are classified a general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of 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 year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. 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.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| Description                          | Estimated Lives |
|--------------------------------------|-----------------|
| Buildings and Buildings Improvements | 10-40 years     |
| Furniture, Fixtures, and Equipment   | 5-10 years      |
| Vehicles                             | 10 years        |

**K. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of 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 that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School Districts past experience of making termination payments.

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

Unpaid compensated absences that are normally expected to be paid using expendable available financial resources are reported as a liability on the government fund financial statements.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payable, accrued liabilities and long-term obligations payable from the internal service fund are reported on the internal service fund 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

**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 balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

**Q. Interfund Transactions**

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.

**R. 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 the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in fiscal 2003.

**S. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 – Changes in Accounting Principles and Restatement of Fund Balance**

**A. Changes in Accounting Principles**

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements consist of the School District’s programs governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34 including the required content of Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**B. Restatement of Fund Balance**

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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The transition from governmental fund balance to net assets of the governmental activities is also presented.

|  | General      | Nonmajor<br>Gov't.<br>Funds | Total<br>Governmental<br>Activities |
|--|--------------|-----------------------------|-------------------------------------|
| Fund Balance June 30, 2002                     | \$ 4,596,152 | \$1,178,558                 | \$ 5,774,710                        |
| Implementation of GASB Interpretation Number 6 | 777,382      | 106,599                     | 883,981                             |
| Restated Fund Balance, June 30, 2002           | \$ 5,373,534 | \$1,285,157                 | \$ 6,658,691                        |

GASB 34 Adjustments:

|   |               |
|---|---------------|
| Internal Service Fund                             | 491,870       |
| Property Taxes                                    | 317,719       |
| Capital Assets                                    | 31,254,989    |
| Long-Term Liabilities                             | (23,496,431)  |
| Governmental Activities Net Assets, June 30, 2002 | \$ 15,226,838 |

The net decrease in capital assets of \$5,135,083, from \$55,012,432 to \$49,877,349 was due to an overstatement of assets from prior years.

**Note 4 - Accountability**

**A. Deficit Fund Balances**

Fund balances at June 30, 2003 included the following individual fund deficits:

Non major funds

|                       |          |
|-----------------------|----------|
| Swimming Pool         | \$ 5,395 |
| Adult Basic Education | 10,084   |
| Title VIB             | 35,298   |
| Drug Free Schools     | 3,189    |
| Pre-School Grant      | 2,830    |
| Food Service          | 36,304   |

The fund deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provides operating transfers when cash is required, rather than when accruals occur.

**Note 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 presented 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 GAAP basis are the following:

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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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 following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

|   |                |
|---|----------------|
| GAAP Basis                              | \$ (1,712,601) |
| Net Adjustment for Revenue Accruals     | (126,929)      |
| Net Adjustment for Expenditure Accruals | (168,005)      |
| Advance Out                             | (2,834)        |
| Refund of Prior Year Receipts           | (1,760)        |
| Refund of Prior Year Expenditures       | 48,952         |
| Budget Basis                            | \$ (1,963,177) |

**Note 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 withdraw able 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 two 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.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Interim monies may be 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 obligations or securities 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 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).
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education).

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 \$8,750 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

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

At fiscal year end, the carrying amount of the School District's deposits was \$(234,182) and the bank balance was \$9,930,705. Of the bank balance, \$301,996 was covered by federal depository insurance and \$9,628,709 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.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio, an investment pool operated by the Ohio State Treasurer, which is an unclassified investment since it is not evidenced by securities that exist in physical bank entry form.

|                       | Category 3 | Carrying Value | Fair Value   |
|-----------------------|------------|----------------|--------------|
| Repurchase Agreements | \$470,000  | \$ 470,000     | \$ 470,000   |
| STAROhio              |            | 9,404,641      | 9,404,641    |
| Total                 |            | \$ 9,874,641   | \$ 9,874,641 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9.

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

|  | Cash and Cash Equivalents/<br>Deposits | Investments  |
|--|--|--------------|
| GASB Statement No. 9                                     | \$ 9,649,209                           | \$ 0         |
| Cash on Hand   | (8,750)                                | 0            |
| Investments which are part of<br>a cash management pool: |  |              |
| Repurchase Agreements                                    | (470,000)                              | 470,000      |
| STAROhio   | (9,404,641)                            | 9,404,641    |
| GASB Statement No. 3                                     | \$ (234,182)                           | \$ 9,874,641 |

**Note 7 - 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, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 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 real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. 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.

The School District receives property taxes from Portage County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2003, was \$358,096 in the General Fund and \$32,933 in Other Governmental Funds. The amount available as an advance at June 30, 2002 was \$284,131 in the General Fund and \$29,927 in the debt service fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

|   | 2002 Second-<br>Half Collections |                | 2003 First-<br>Half Collections |                |
|---|----------------------------------|----------------|---------------------------------|----------------|
|   | Amount                           | Percent        | Amount                          | Percent        |
| Agricultural/Residential and<br>Other Real Estate | \$373,392,330                    | 85.77%         | \$379,000,650                   | 86.47%         |
| Public Utility                                    | 16,702,920                       | 3.84           | 17,025,370                      | 3.88           |
| Tangible Personal Property                        | 45,264,201                       | 10.39          | 42,287,401                      | 9.65           |
| Total Assessed Value                              | <u>\$435,359,451</u>             | <u>100.00%</u> | <u>\$438,313,421</u>            | <u>100.00%</u> |
| Tax rate per \$1,000 of<br>assessed valuation     | \$ 86.60                         |                | \$ 94.48                        |                |

**Note 8 - Receivables**

Receivables at June 30, 2003, consisted of taxes, accounts (tuition and transportation), intergovernmental, and loans. 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.

A summary of the principal items of intergovernmental receivables follows:

|                                     | Amount           |
|-------------------------------------|------------------|
| Governmental Activities             |                  |
| General Fund                        | \$ 27,138        |
| Total Intergovernmental Receivables | <u>\$ 27,138</u> |

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

|   | Balance at<br>6/30/02 | Additions           | Reductions  | Balance at<br>6/30/03 |
|---|-----------------------|---------------------|-------------|-----------------------|
| Governmental Activities                 |                       |                     |             |                       |
| Capital Assets not being Depreciated:   |                       |                     |             |                       |
| Land                                    | \$ 1,470,690          | \$ 0                | \$ 0        | \$ 1,470,690          |
| Capital Assets being Depreciated        |                       |                     |             |                       |
| Buildings and Improvements              | 37,879,867            | 453,369             | 0           | 38,333,236            |
| Furniture, Fixtures and Equipment       | 8,711,271             | 286,209             | 0           | 8,997,480             |
| Vehicles                                | 1,815,521             | 175,196             | 0           | 1,990,717             |
| Totals Capital Assets being depreciated | 48,406,659            | 914,771             | 0           | 49,321,433            |
| Less Accumulated Depreciation:          |                       |                     |             |                       |
| Buildings and Improvements              | (11,299,339)          | (1,007,013)         | 0           | (12,306,352)          |
| Furniture, Fixtures, and Equipment      | (6,273,463)           | (473,187)           | 0           | (6,746,650)           |
| Vehicles                                | (1,049,558)           | (161,802)           | 0           | (1,211,360)           |
| Total Accumulated Depreciation          | (18,622,360)          | (1,642,002)         | 0           | (20,264,362)          |
| Total Assets being Depreciated, Net     | 29,784,299            | (727,228)           | 0           | 29,057,071            |
| Governmental Activities                 |                       |                     |             |                       |
| Capital Assets, Net                     | <u>\$ 31,254,989</u>  | <u>\$ (727,228)</u> | <u>\$ 0</u> | <u>\$ 30,527,761</u>  |

Depreciation expense was charged to governmental functions as follows:

|   |                     |
|---|---------------------|
| Instruction:                            |                     |
| Regular                                 | \$ 677,250          |
| Special                                 | 49,750              |
| Vocational                              | 35,547              |
| Adult/Continuing                        | 710                 |
| Support Services:                       |                     |
| Pupil                                   | 47,262              |
| Instructional Staff                     | 65,830              |
| Board of Education                      | 595                 |
| Administration                          | 16,650              |
| Fiscal                                  | 297                 |
| Business                                | 805                 |
| Operation and Maintenance of Plant      | 458,640             |
| Pupil Transportation                    | 158,263             |
| Central                                 | 61,471              |
| Operation of Non-Instructional Services | 1,171               |
| Food Services                           | 1,708               |
| Extracurricular Activities              | 66,053              |
| Total Depreciation Expense              | <u>\$ 1,642,002</u> |

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**Note 10 - Interfund Assets/Liabilities**

On the fund financial statements, the general fund reported on interfund receivable at June 30, 2003 of \$7,585. The continuing education special revenue fund had an interfund payable in the amount of \$2,700 and the AED donations special revenue fund reported an interfund payable of \$4,855. These loans were made to support programs and projects in these special revenue funds.

**Note 11 - Risk Management**

**A. Property and Liability Insurance**

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 2003, the School District contracted with Indiana Insurance Company for property, general liability and inland marine insurance. Travelers Insurance Company covers boiler and machinery with a \$30,000,000 single occurrence limit and a \$1,000 deductible. Vehicles are covered by Indiana Insurance Company and have a \$1,000 deductible for comprehensive and a \$1,000 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability.

The District has general liability with Indiana Insurance Company in the amounts of \$1,000,000 per occurrence and \$2,000,000 aggregate, with no deductibles. Accompanying umbrella excess liability insurance provides \$6,000,000 coverage per occurrence and aggregate, with a \$10,000 self-insurance retention.

There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past five years.

**B. Workers' Compensation**

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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 participating school districts is calculated as one experience and a common premium rate is applied to all school districts 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 share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**C. Employee Medical Benefits**

The School District has elected to provide employee medical/prescription drug/surgical/dental/vision benefits through a self-insurance program, effective October 1, 1994. The School District maintains a self-insurance internal service fund to account for and finance this program. This plan provides a \$200 per person (family \$400) major medical deductible and a 20 percent (\$20 maximum) and a 10 percent (\$10 maximum) per prescription co-pay for certificated and noncertificated employees, respectively. Klais & Company, Inc. reviews of claims and administers the payment of claims for the School District.

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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The School District pays, into the self insurance internal service fund, monthly premium rates as follows:

|                           | Family<br>Coverage | Single<br>Coverage |
|---------------------------|--------------------|--------------------|
| Noncertificated Personnel | \$862.94           | \$355.63           |
| Certificated Personnel    | 857.94             | 352.63             |

The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. Noncertificated personnel pay a premium of 17 percent of the premium cost up to a maximum of \$64 per month for single coverage and \$148 for family coverage. These payroll deduction premiums are also paid into the self-insurance internal service fund. Certificated personnel pay a set premium of \$67 per month for single coverage and \$153 for family coverage.

The claims liability of \$205,113 reported in the internal service fund at June 30, 2003, was estimated by a third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense. Changes in the fund's claims liability amount in 2001, 2002 and 2003 were:

|      | Balance<br>Beginning<br>of Year | Current<br>Year<br>Claims | Claim<br>Payments | Balance<br>End<br>of Year |
|------|---------------------------------|---------------------------|-------------------|---------------------------|
| 2001 | \$246,611                       | 3,271,778                 | 3,268,814         | \$249,575                 |
| 2002 | 249,575                         | 3,473,113                 | 3,269,470         | 453,218                   |
| 2003 | 453,218                         | 3,041,289                 | 3,289,394         | 205,113                   |

**Note 12 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 balances from the existing DB Plan into the DC Plan or the Combined Plan.

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$1,150,516 \$1,128,967, and \$1,101,131, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$184,035.

**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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 8.5 percent was the portion used to fund pension obligations for fiscal year 2003. For fiscal year 2002, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$286,077, \$266,759 and \$254,237, respectively; 88.49 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$32,937.

**Note 13 - Postemployment Benefits**

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

**Kent City School District**  
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All STRS benefit recipients and sponsored 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. Most 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 2003, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$1,534,022 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, a decrease from 9.8 percent for fiscal year 2002. 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 2003, the minimum pay has been established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$533,501 for fiscal year 2003.

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, 2002, were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**Note 14 - Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn two to twenty days of vacation per year, depending upon length of service and hours worked.

Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and most administrators do not earn vacation time. Administrators employed to work 260 days per year earn 20 days of vacation annually. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated without limit. Upon retirement, classified employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 160 days, and one-ninth of accumulated sick leave beyond 160 days, to a maximum accumulation of 216 days. Upon retirement, a certificated employee or administrator is paid for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 168 days, and one-ninth of accumulated sick leave beyond 168 days, to a maximum accumulation of 270 days.

**B. Health Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Sun Life Assurance Company, in an amount of \$40,000 or \$45,000 for certified, \$40,000 or \$45,000 for non-certified staff, and \$50,000 for four administrators, depending upon the employee's length of service.

**Note 15 - Jointly Governed Organizations**

**A. North East Ohio Network for Educational Technology (NEONET)**

The North East Ohio Network for Educational Technology (NEONET) is a jointly governed organization among sixteen school districts and the Summit County Educational Service Center formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of NEONET including budgeting, appropriating, contracting and designating management. The seven member board of directors consists of four superintendents, two members of the treasurers' committee and one member of the student services subcommittee. All revenues are generated from an annual fee of \$16.30 per student to participating districts and State funding. The Summit County Educational Service Center is the fiscal agent of NEONET. Financial information can be obtained by writing to the Summit County Educational Service Center, 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

**B. Vocational Compact**

The Vocational Compact is a jointly governed organization to provide for the vocational and special education needs of the students of six participating school districts. The six member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district that offered the class. Cuyahoga Falls City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. Kent City School district paid \$36,625 to the Vocational Compact for services during fiscal year 2003.

**C. Ohio Schools Council**

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2003, the School District paid \$754 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 155 Center Road, Bedford, Ohio 44146.

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The School District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

**Note 16 – Related Organization**

The Kent Free Library is a related organization to Kent City School District. The School Board members are responsible for appointing all the trustees of the Kent Free Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to Kent City School District. Kent City School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, Kent City School District must place the levy on the ballot. The Library determines its own budget. The Library did not receive any funding from Kent City School District during fiscal year 2003.

**Note 17 – Insurance Purchasing Pool**

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), 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 program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 – Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. 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, 2003.

**B. Litigation**

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**C. 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.

**Kent City School District**  
Notes to the Basic Financial Statements  
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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 District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**Note 19 – Capitalized Leases – Lessee Disclosure**

The School District has entered into several capital leases for copiers. General fixed assets consisting of equipment and furniture and fixtures have been capitalized in the amount of \$53,187. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2003 totaled \$22,465.

The School District has also entered into a capital lease for the renovation of Davey Middle School. As part of the agreement, Fifth Third Bank, as lessor, provided \$1,000,000 for the renovations. General fixed assets being constructed with this lease have been capitalized in the amount of \$1,000,000 for building as of June 30, 2000. Principal payment in fiscal year 2003 totaled \$92,940.

The School District also entered into a capital lease for a district wide phone system. As part of the agreement, Banc One Leasing as Lessor, provided \$376,755 in financing. General fixed assets consisting of equipment have been capitalized in the amount of \$376,755. Principal payments in fiscal year 2003 totaled \$47,158.

The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

| Fiscal Year Ending June 30,                 | Total        |
|---|--------------|
| 2004  | \$ 207,386   |
| 2005  | 187,954      |
| 2006  | 181,477      |
| 2007  | 181,477      |
| 2008  | 181,477      |
| 2009-2011                                   | 236,930      |
| Total                                       | \$ 1,176,701 |
| Less: Amount Representing Interest          | (133,509)    |
| Present Value of Net Minimum Lease Payments | \$ 1,043,192 |

**Note 20 – Leasing Arrangements**

The School District leases the following equipment under noncancelable operating leases: copier machines – 60 month leases.

The following is a schedule of future minimum rental payments required under the above operating leases as of June 30, 2003.

**Kent City School District**  
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| Year Ending June 30, | Amount    |
|----------------------|-----------|
| 2004                 | \$ 33,915 |
| 2005                 | 33,915    |
| 2006                 | 33,915    |
| 2007                 | 12,192    |

Rental expense amounted to \$33,915 for the year ended June 30, 2003.

**Note 21 – Long-Term Debt**

The changes in long-term obligations of the School District during the 2003 fiscal year were as follows:

|                                       | Principal<br>Outstanding<br>6/30/02 | Additions        | Deductions         | Principal<br>Outstanding<br>6/30/03 | Amounts<br>Due in<br>One Year |
|---------------------------------------|-------------------------------------|------------------|--------------------|-------------------------------------|-------------------------------|
| General Obligation Bonds:             |                                     |                  |                    |                                     |                               |
| Energy Conservation Improvement 6.15% | \$ 125,000                          | \$ 0             | \$ 125,000         | \$ 0                                | \$ 0                          |
| Energy Conservation Improvement 5.25% | 231,000                             | 0                | 73,000             | 158,000                             | 77,000                        |
| School Improvement 5.09%              | 3,070,000                           | 0                | 115,000            | 2,520,000                           | 120,000                       |
| School Improvement 5.81%              | <u>16,346,185</u>                   | <u>0</u>         | <u>550,000</u>     | <u>16,231,185</u>                   | <u>575,000</u>                |
| Total General Obligation Bonds        | <u>19,772,185</u>                   | <u>0</u>         | <u>863,000</u>     | <u>18,909,185</u>                   | <u>772,000</u>                |
| Capital Leases:                       |                                     |                  |                    |                                     |                               |
| Xerox Copier - Stanton                | 53,187                              | 0                | 22,465             | 30,722                              | 24,330                        |
| Davey Renovations                     | 775,813                             | 0                | 92,940             | 682,873                             | 96,064                        |
| Phone System                          | <u>376,755</u>                      | <u>0</u>         | <u>47,158</u>      | <u>329,597</u>                      | <u>49,222</u>                 |
| Total Capital Leases                  | <u>1,205,755</u>                    | <u>0</u>         | <u>162,563</u>     | <u>1,043,192</u>                    | <u>169,616</u>                |
| Pension Obligation                    | 313,260                             | 0                | 313,260            | 0                                   | 0                             |
| Compensated Absences                  | <u>1,321,248</u>                    | <u>349,824</u>   | <u>0</u>           | <u>1,671,072</u>                    | <u>34,232</u>                 |
| Total General Long-Term Obligations   | <u>\$22,612,448</u>                 | <u>\$349,824</u> | <u>\$1,338,823</u> | <u>\$21,623,449</u>                 | <u>\$975,848</u>              |

**Kent City School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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General obligation bonds will be paid from tax revenues in the debt service fund. Compensated absences will be paid from the fund from which the person is paid. Capital leases are paid from the general fund and capital projects fund.

The legal debt margin of the School District as of June 30, 2003, was \$20,539,024. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| 2004                          | \$ 772,000          | \$ 996,835          | \$ 1,768,835        |
| 2005                          | 811,000             | 957,844             | 1,768,844           |
| 2006                          | 765,00              | 916,383             | 1,681,383           |
| 2007                          | 329,751             | 1,374,427           | 1,704,178           |
| 2008                          | 311,435             | 1,391,437           | 1,702,872           |
| 2009-2013                     | 4,224,999           | 4,204,534           | 8,429,533           |
| 2014-2018                     | 5,880,000           | 2,497,701           | 8,377,701           |
| 2019-2022                     | 5,815,000           | 661,595             | 6,476,595           |
| Total                         | <u>\$18,909,185</u> | <u>\$13,000,756</u> | <u>\$31,909,941</u> |

**Note 22 - 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 year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2003.

|   | Textbooks           | Capital<br>Improvements |
|---|---------------------|-------------------------|
| Balance June 30, 2002                         | \$ 0                | \$ 0                    |
| Current Year Set Aside<br>Requirement         | 507,599             | 507,599                 |
| Qualifying Expenditures                       | (635,367)           | (1,457,891)             |
| Balance June 30, 2003                         | <u>\$ (127,768)</u> | <u>\$ (950,292)</u>     |
| Amount Carried Forward to<br>Fiscal Year 2004 | <u>\$ 0</u>         | <u>\$ 0</u>             |

The School District had qualifying expenditures during the year that reduced the textbooks and capital improvements set aside amounts below zero. These extra amounts may be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the two set-asides at the end of the fiscal year was \$0.

**Kent City School District**  
**Schedule of Expenditures of Federal Awards**  
**for the Year Ended June 30, 2003**

| Federal Grantor/Sub Grantor<br>Program Title  | CFDA<br>Number | Pass-Through<br>Grantor's Number | Receipts | Non-Cash<br>Receipts | Disbursements | Non-Cash<br>Disbursements |
|---|----------------|----------------------------------|----------|----------------------|---------------|---------------------------|
| <u>U.S. Department of Education</u>   |                |                                  |          |                      |               |                           |
| Passed through the State<br>Department of Education                                 |                |                                  |          |                      |               |                           |
| Adult Education-State Grant Program   | 84.002         | AB-S1                            | \$98,936 | \$ -                 | \$101,795     | \$ -                      |
| Total Adult Education   |                |                                  | 98,936   | -                    | 101,795       | -                         |
| Title 1 - Education<br>Consolidated Improvement Act<br>of 2000                      | 84.010         | 043497-C1-S1                     | 893,455  | -                    | 827,911       | -                         |
| Total Title 1   |                |                                  | 893,455  | -                    | 827,911       | -                         |
| Title VI - Education Consolidation<br>and Improvement Act of 1981                   | 84.298         | 043497-C2-S1                     | 23,239   | -                    | 22,308        | -                         |
| Total Title VI  |                |                                  | 23,239   | -                    | 22,308        | -                         |
| Special Education Cluster:<br>Title VI-B - Education of Handicapped<br>Children Act | 84.027         | 043497-6B-SF                     | 541,495  | -                    | 461,800       | -                         |
| Total Title VI-B  |                |                                  | 541,495  | -                    | 461,800       | -                         |
| Title VI-B - Preschool  | 84.173         | 043497-PG-S1                     | 27,541   | -                    | 19,745        | -                         |
| Total Title VI-B - Preschool  |                |                                  | 27,541   | -                    | 19,745        | -                         |
| Total Special Education Cluster   |                |                                  | 569,036  | -                    | 481,545       | -                         |
| Drug Free Schools Grant   | 84.186         | 043497-DR-S1                     | 26,117   | -                    | 20,814        | -                         |
| Total Drug Free Schools Grant   |                |                                  | 26,117   | -                    | 20,814        | -                         |
| Eisenhower Grant  | 84.164         | N/A                              | (1,508)  | -                    | 14,065        | -                         |
| Total Eisenhower Grant  |                |                                  | (1,508)  | -                    | 14,065        | -                         |

**Kent City School District**  
**Schedule of Expenditures of Federal Awards - Continued**  
**for the Year Ended June 30, 2003**

| Federal Grantor/Sub Grantor<br>Program Title | CFDA<br>Number | Pass-Through<br>Grantor's Number | Receipts | Non-Cash<br>Receipts | Disbursements | Non-Cash<br>Disbursements |
|--|----------------|----------------------------------|----------|----------------------|---------------|---------------------------|
| Carl Perkins Grant                           | 84.048         | 04349720                         | 82,960   | -                    | 96,060        | -                         |
| Total Carl Perkins Grant                     |                |                                  | 82,960   | -                    | 96,060        | -                         |
| Mentor 2001                                  | 84.276         | 043497-G2-S1                     | 13,744   | -                    | 15,003        | -                         |
| Total Mentor 2001                            |                |                                  | 13,744   | -                    | 15,003        | -                         |
| Title VI-R                                   | 84.340         | N/A                              | (91)     | -                    | 27,554        | -                         |
| Total Bureau of Vocational Rehab             |                |                                  | (91)     | -                    | 27,554        | -                         |
| Ohio Partners Education                      | 84.215         | N/A                              | (19,804) | -                    | 12,759        | -                         |
| Total Ohio Partners Education                |                |                                  | (19,804) | -                    | 12,759        | -                         |
| Even Start                                   | 84.213         | N/A                              | -        | -                    | 33            | -                         |
| Total Even Start                             |                |                                  | -        | -                    | 33            | -                         |
| Improving Teacher Quality                    | 84.367         | 044198-TR-S1                     | 229,987  | -                    | 142,841       | -                         |
| Total Improving Teacher Quality              |                |                                  | 229,987  | -                    | 142,841       | -                         |
| Title II - D                                 | 84.318         | 046573-TJ-S1                     | 21,748   | -                    | 9,896         | -                         |
| Total Title II - D                           |                |                                  | 21,748   | -                    | 9,896         | -                         |
| Safe Schools                                 | 84.184         | S184L-990221                     | 1,534    | -                    | 1,383         | -                         |
| Total Safe Schools                           |                |                                  | 1,534    | -                    | 1,383         | -                         |

**Kent City School District  
Schedule of Expenditures of Federal Awards - Continued  
for the Year Ended June 30, 2003**

| Federal Grantor/Sub Grantor<br>Program Title        | CFDA<br>Number | Pass-Through<br>Grantor's Number | Receipts     | Non-Cash<br>Receipts | Disbursements | Non-Cash<br>Disbursements |
|---|----------------|----------------------------------|--------------|----------------------|---------------|---------------------------|
| Title III   | 84.365         | N/A                              | 10,266       | -                    | 1,659         | -                         |
| Total Title III                                     |                |                                  | 10,266       | -                    | 1,659         | -                         |
| Total U.S. Department of Education                  |                |                                  | 1,949,619    | -                    | 1,775,626     | -                         |
| <u>U.S. Department of Health and Human Services</u> |                |                                  |              |                      |               |                           |
| Passed through Ohio Department of MRDD              |                |                                  |              |                      |               |                           |
| Medical Assistance Program                          | 93.778         | 43497                            | 72,474       | -                    | 72,474        | -                         |
| Total U.S. Department of Health and Human Services  |                |                                  | 72,474       | -                    | 72,474        | -                         |
| <u>U.S. Department of Agriculture</u>               |                |                                  |              |                      |               |                           |
| Passed through the State Department of Education    |                |                                  |              |                      |               |                           |
| Child Nutrition Cluster                             |                |                                  |              |                      |               |                           |
| Food Distribution Program                           | 10.550 (A)     | 43497                            | -            | 28,887               | -             | 31,479                    |
| National School Breakfast Program                   | 10.553         | 043497-05-PU                     | 53,292       | -                    | 53,292        | -                         |
| National School Lunch Program                       | 10.555 (B)     | 043497-03-PU                     | 264,195      | -                    | 264,195       | -                         |
| Total U.S. Department of Agriculture                |                |                                  | 317,487      | 28,887               | 317,487       | 31,479                    |
| Total Federal Financial Assistance                  |                |                                  | \$ 2,339,580 | \$ 28,887            | \$ 2,165,587  | \$ 31,479                 |

(A) Valued at fair market value less cost to the School District, assumed expended on a first-in, first-out basis.

(B) Commingled with state and local funds. Assumed expended on a first-in, first-out basis.

This schedule is prepared on the cash basis of accounting.

**Independent Auditors' Report on Compliance and on Internal Control Over  
Required by Government Auditing Standards**

To the Board of Education  
Kent City School District  
Kent, Ohio 44240

We have audited the basic financial statements of the Kent City School District (the District), as of and for the year ended June 30, 2003 and have issued our report thereon dated December 17, 2003, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34. 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 Kent City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kent City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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.

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

*Moore Stephens Apple*

Akron, Ohio  
December 17, 2003

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Major Federal Programs and Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

To the Board of Education  
Kent City School District  
Kent, OH 44240

Compliance

We have audited the compliance of Kent City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Kent City School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent City School District's management. Our responsibility is to express an opinion on Kent City 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, 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 Kent City 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 Kent City School District's compliance with those requirements.

In our opinion, Kent City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

## Internal Control Over Compliance

The management of Kent City 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 Kent City 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.

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

*Moore Stephens Apple*

Akron, Ohio  
December 17, 2003

**Kent City School District - Portage County**

**Schedule of Findings and Questioned Costs**

**June 30, 2003**

**1. *Summary of Auditors' Results***

Unqualified opinion was issued on the financial statements.

Material control weaknesses at the financial statement level - none noted.

Other reportable control weaknesses at the financial statement level – none noted.

There was no material non-compliance at the financial statement level.

Reportable control weaknesses for major federal programs - none noted.

For those items tested, there was no material non-compliance for major federal programs.

Unqualified opinion was issued on major programs compliance.

The audit disclosed no findings under OMB Circular A-133.

The District's major programs tested were Title 1 – CFDA #84.010 and the Medical Assistance Program – CFDA #93.778.

The dollar threshold used for Type A Programs was \$300,000 and Type B programs were all other programs.

The Auditee was low risk.

2. There were no audit findings or questioned costs for federal awards during the year ended June 30, 2003.
3. There were no audit findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards for the year ended June 30, 2003.

**Kent City School District - Portage County**

**Schedule of Prior Audit Findings**

**June 30, 2003**

The prior audit report of the Kent City School District, issued as of June 30, 2002, included no citation and no recommendations.





**Auditor of State  
Betty Montgomery**

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**KENT CITY SCHOOL DISTRICT**

**PORTAGE 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  
SEPTEMBER 2, 2004**