



**Auditor of State
Betty Montgomery**

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Kenton City School District
Hardin County
400 Decatur Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, (the "School District"), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2004, 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 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 schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 15, 2004

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The discussion and analysis of Kenton City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 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 basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

In total, net assets decreased \$1,209,237. Tangible personal property taxes received by the School District during fiscal year 2003 were over \$900,000 less than the prior fiscal year and can be attributed to the difficult economic environment and less inventory being maintained by local businesses. The School District only saw a 1.3 percent increase in State grants and entitlements, which was extremely low compared to history, and a statewide reduction in foundation payments cost the School District \$199,794.

General revenues accounted for \$13,047,592, or 84 percent of all revenues, and reflect the School District's significant dependence on property taxes and unrestricted state grants and entitlements.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses a single type of activity:

Governmental Activities - All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002:

Table 1
Net Assets

	Governmental Activities	
	2003	2002
<u>Assets:</u>		
Current and Other Assets	\$10,168,002	\$10,627,508
Capital Assets, Net	3,139,555	3,167,770
Total Assets	13,307,557	13,795,278
<u>Liabilities:</u>		
Current and Other Liabilities	6,138,407	5,538,393
Long-Term Liabilities	1,039,819	918,317
Total Liabilities	7,178,226	6,456,710
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,139,555	3,083,770
Restricted	379,500	390,502
Unrestricted	2,610,276	3,864,296
Total Net Assets	\$6,129,331	\$7,338,568

Current and other assets decreased \$459,506. The decrease is primarily due to a decrease in equity in pooled cash and cash equivalents of \$847,183. With fewer resources coming in to fund existing programs, the School District has been spending the cash carryover from prior fiscal years.

The total liabilities increased \$721,516. At fiscal year end, there was less property tax monies available to the School District than at the end of the prior fiscal year; therefore, a greater amount was deferred.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets from the prior fiscal year.

Table 2
Change in Net Assets

	Governmental Activities	
	2003	2002
<u>Revenues</u>		
Program Revenues:		
Charges for Services and Sales	\$633,535	\$651,911
Operating Grants, Contributions, and Interest	1,879,732	1,729,023
Capital Grants and Contributions	22,971	91,863
Total Program Revenues	<u>2,536,238</u>	<u>2,472,797</u>
General Revenues:		
Property Taxes	3,909,237	4,809,960
Income Taxes	1,550,819	1,525,198
Grants and Entitlements	7,333,658	7,249,574
Interest	117,599	170,404
Miscellaneous	136,279	34,645
Total General Revenues	<u>13,047,592</u>	<u>13,789,781</u>
Total Revenues	<u>15,583,830</u>	<u>16,262,578</u>
<u>Expenses</u>		
Instruction	10,287,096	9,737,907
Support Services:		
Pupils	646,266	511,020
Instructional Staff	713,391	563,049
Board of Education	29,788	26,792
Administration	1,533,064	1,348,249
Fiscal	421,868	413,604
Operation and Maintenance of Plant	1,582,657	1,339,752
Pupil Transportation	611,706	565,750
Central	18,410	40,527
Non-Instructional Services	713,428	703,270
Extracurricular Activities	233,696	152,815
Interest and Fiscal Charges	1,697	5,711
Total Expenses	<u>16,793,067</u>	<u>15,408,446</u>
Increase/Decrease in Net Assets	<u>(\$1,209,237)</u>	<u>\$854,132</u>

For fiscal year 2003, program revenues accounted for 16 percent of total revenues and are primarily represented by restricted intergovernmental revenues; charges for tuition, fees, and extracurricular activities; and food service sales. This percentage has remained fairly consistent for the past four fiscal years.

For general revenues, property taxes decreased over \$900,000, or approximately 19 percent, due to the decrease in personal property taxes. In addition, there was less property tax monies available to the School District as an advance at the end of the fiscal year. Interest revenue also decreased approximately 30 percent due to poor interest rates offered on invested funds.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The major program expenses for governmental activities are for instruction, which accounts for 61 percent of all governmental expenses. Other programs, which support the instruction process, including pupils and instructional staff and pupil transportation, account for 12 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 9 percent. Therefore, over 82 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

During fiscal year 2003, the School District added an elementary guidance counselor, psychologist services, and a reading specialist. These additions have contributed to the increase in instruction and instructional staff expenses. Expenses for administration increased with the addition of a full-time administrative assistant and a curriculum supervisor moving from a part-time to a full-time position. Operation and maintenance expenses increased in fiscal year 2003 due to a greater number of projects undertaken during the summer months when compared to the prior fiscal year. Extracurricular activities expenses increased in excess of 50 percent. This increase is the result of extended participation in tournament events, as well as improvements to equipment and uniforms in a number of sports programs.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Instruction	\$10,287,096	\$9,737,907	\$8,692,501	\$8,229,783
Support Services:				
Pupils	646,266	511,020	638,480	497,698
Instructional Staff	713,391	563,049	713,391	563,049
Board of Education	29,788	26,792	29,788	26,792
Administration	1,533,064	1,348,249	1,533,064	1,348,249
Fiscal	421,868	413,604	421,868	413,604
Operation and Maintenance of Plant	1,582,657	1,339,752	1,582,657	1,339,752
Pupil Transportation	611,706	565,750	583,404	542,833
Central	18,410	40,527	18,410	32,935
Non-Instructional Services	713,428	703,270	46,142	39,557
Extracurricular Activities	233,696	152,815	(4,573)	(104,314)
Interest and Fiscal Charges	1,697	5,711	1,697	5,711
Total Expenses	\$16,793,067	\$15,408,446	\$14,256,829	\$12,935,649

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 84 percent of instruction activities are supported through taxes and other general fund revenues. Extracurricular activities had program revenues in excess of expenses of \$4,573 for the fiscal year. This is primarily due to ticket sales for extracurricular activity events, reserved seating sales, and program advertising. The percent of costs supported by general revenues has remained the same as that of the prior fiscal year.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$15,500,536 and expenditures of \$16,657,352. The negative change of \$1,156,816 in fund balance for the fiscal year indicates that the School District was unable to meet current costs. Due to changes and reductions in state and federal funding of various programs, further reductions in fund balances will need to be addressed by the Board of Education.

General Fund Budgeting Highlights

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

During fiscal year 2003, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$13,913,404, were less than original budgeted revenues, in the amount of \$13,931,279. However, this change was very insignificant.

Final expenditures were budgeted at \$16,720,423 while actual expenditures were \$14,895,774. A portion of the \$1,824,649 difference comes from budgeting salaries at the full cost of current contracts through August, but actual expenditures are through June. In addition, the School District had received projections for significant increases in medical insurance costs, almost 30 percent, and budgeted accordingly. However, actual costs were much less than projected, only about a 14 percent increase.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$3,139,555 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of less than 1 percent from the prior fiscal year. For further information regarding the School District's capital assets see Note 10 to the basic financial statements.

Debt

At June 30, 2003, the Kenton City School District's only long-term obligations were for compensated absences. The last payment on the energy conservation notes was paid in December 2002. For further information regarding the School District's debt see Note 16 to the basic financial statements.

Current Issues

Kenton City School District is experiencing declining revenues in a declining economy and less State funding increases than experienced in prior fiscal years. During previous fiscal years, the School District's leading employer, Meritor, has consistently reduced its labor force from above five hundred to a little over one hundred. Another School District employer, Durez Occidental Chemical Corporation, has also reduced their staff by approximately 65 percent since fiscal year 2000. The School District has experienced a decline in enrollment due to parent relocation for jobs and declining birth rate. The School District expects a decline in income tax collections and in tangible personal property values during future fiscal years. This decrease will not only be in revenues but also eliminate the inflationary growth which helps cover increasing expenses.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The challenge for the School District Administration and Board of Education is to provide quality education with fewer monies available to spend. A reduction in staff was made at the end of the 2003 school year and will reduce staff at the end of the 2004 school year as well.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Steve Ashba, Treasurer, Kenton City School District, 400 Decatur Street, Kenton, Ohio 43326.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,690,198
Accounts Receivable	5,653
Accrued Interest Receivable	1,941
Intergovernmental Receivable	286,004
Income Taxes Receivable	580,417
Receivable from External Parties	199
Prepaid Items	50,050
Inventory Held for Resale	11,571
Materials and Supplies Inventory	2,719
Property Taxes Receivable	4,539,250
Nondepreciable Capital Assets	677,032
Depreciable Capital Assets, Net	2,462,523
Total Assets	13,307,557
Liabilities:	
Accounts Payable	29,144
Accrued Wages and Benefits Payable	1,477,772
Intergovernmental Payable	435,069
Matured Compensated Absences Payable	56,853
Deferred Revenue	4,139,569
Long-Term Liabilities:	
Due Within One Year	93,142
Due in More Than One Year	946,677
Total Liabilities	7,178,226
Net Assets:	
Invested in Capital Assets	3,139,555
Restricted For:	
Set Asides	68,364
Other Purposes	311,136
Unrestricted	2,610,276
Total Net Assets	\$6,129,331

See Accompanying Notes to Basic Financial Statements.

KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest		Capital Grants and Contributions
Governmental Activities:					
Instruction:					
Regular	\$8,249,226	\$48,042	\$351,136	\$22,971	(\$7,827,077)
Special	1,743,459		1,168,935		(574,524)
Vocational	294,411		3,511		(290,900)
Support Services:					
Pupils	646,266		7,786		(638,480)
Instructional Staff	713,391				(713,391)
Board of Education	29,788				(29,788)
Administration	1,533,064				(1,533,064)
Fiscal	421,868				(421,868)
Operation and Maintenance of Plant	1,582,657				(1,582,657)
Pupil Transportation	611,706	10,951	17,351		(583,404)
Central	18,410				(18,410)
Non-Instructional Services	713,428	369,617	297,669		(46,142)
Extracurricular Activities	233,696	204,925	33,344		4,573
Interest and Fiscal Charges	1,697				(1,697)
Total Governmental Activities	<u>\$16,793,067</u>	<u>\$633,535</u>	<u>\$1,879,732</u>	<u>\$22,971</u>	<u>(14,256,829)</u>

General Revenues:

Property Taxes Levied for General Purposes	3,909,237
Income Taxes	1,550,819
Grants and Entitlements not Restricted to Specific Programs	7,333,658
Interest	117,599
Miscellaneous	136,279
Total General Revenues	<u>13,047,592</u>
Change in Net Assets	(1,209,237)
Net Assets Beginning of Year	7,338,568
Net Assets End of Year	<u>\$6,129,331</u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,361,520	\$225,141	\$4,586,661
Accounts Receivable	5,003	650	5,653
Interfund Receivable	76,020		76,020
Accrued Interest Receivable	1,934	7	1,941
Intergovernmental Receivable	32,815	253,189	286,004
Income Taxes Receivable	580,417		580,417
Receivable from External Parties	199		199
Prepaid Items	48,556	1,494	50,050
Inventory Held for Resale		11,571	11,571
Materials and Supplies Inventory		2,719	2,719
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	103,537		103,537
Property Taxes Receivable	4,539,250		4,539,250
Total Assets	<u>9,749,251</u>	<u>494,771</u>	<u>10,244,022</u>
Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	28,544	600	29,144
Interfund Payable		76,020	76,020
Accrued Wages and Benefits Payable	1,349,969	127,803	1,477,772
Intergovernmental Payable	305,125	11,031	316,156
Matured Compensated Absences Payable	56,853		56,853
Deferred Revenue	4,357,133	9,735	4,366,868
Total Liabilities	<u>6,097,624</u>	<u>225,189</u>	<u>6,322,813</u>
Fund Balances:			
Reserved for Property Taxes	298,152		298,152
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	35,173		35,173
Reserved for Encumbrances	369,002	21,760	390,762
Unreserved, Reported in:			
General Fund	2,880,936		2,880,936
Special Revenue Funds		247,822	247,822
Total Fund Balances	<u>3,651,627</u>	<u>269,582</u>	<u>3,921,209</u>
Total Liabilities and Fund Balances	<u>\$9,749,251</u>	<u>\$494,771</u>	<u>\$10,244,022</u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2003**

Total Governmental Fund Balances		\$3,921,209
 Amounts reported for governmental activities on the statement of net assets are different because of the following:		
 Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		
		3,139,555
 Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	1,625	
Interfund Receivable	597	
Accrued Interest Receivable	7	
Intergovernmental Receivable	19,748	
Income Taxes Receivable	103,793	
Property Taxes Receivable	101,529	
		227,299
 Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.		
		(118,913)
 Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Compensated Absences Payable		(1,039,819)
Net Assets of Governmental Activities		<u><u>\$6,129,331</u></u>

See Accompanying Notes to the Basic Financial Statements

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2003**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$3,853,974		\$3,853,974
Income Taxes	1,518,268		1,518,268
Intergovernmental	7,844,502	1,312,563	9,157,065
Interest	117,599	487	118,086
Tuition and Fees	118,949	6,486	125,435
Extracurricular Activities		226,774	226,774
Charges for Services		370,522	370,522
Gifts and Donations		5,007	5,007
Miscellaneous	113,977	11,428	125,405
Total Revenues	13,567,269	1,933,267	15,500,536
Expenditures:			
Current:			
Instruction:			
Regular	7,769,039	254,104	8,023,143
Special	1,193,294	531,540	1,724,834
Vocational	287,049		287,049
Support Services:			
Pupils	624,096	10,007	634,103
Instructional Staff	529,338	160,560	689,898
Board of Education	29,788		29,788
Administration	1,449,133	43,429	1,492,562
Fiscal	415,087		415,087
Operation and Maintenance of Plant	1,656,388	1,815	1,658,203
Pupil Transportation	608,071		608,071
Central	18,410		18,410
Non-Instructional Services		715,471	715,471
Extracurricular Activities		260,215	260,215
Capital Outlay		14,481	14,481
Debt Service:			
Principal Retirement		84,000	84,000
Interest and Fiscal Charges		2,037	2,037
Total Expenditures	14,579,693	2,077,659	16,657,352
Revenues (Under) Expenditures	(1,012,424)	(144,392)	(1,156,816)
Other Financing Sources (Uses):			
Transfers In		91,698	91,698
Transfers Out	(91,698)		(91,698)
Total Other Financing Sources (Uses)	(91,698)	91,698	
Net Change in Fund Balances	(1,104,122)	(52,694)	(1,156,816)
Fund Balances at Beginning of Year	4,755,749	322,276	5,078,025
Fund Balances at End of Year	\$3,651,627	\$269,582	\$3,921,209

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net Change in Fund Balances - Total Governmental Funds (\$1,156,816)

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

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

Capital Outlay	321,179	
Depreciation	(348,936)	
	(27,757)	(27,757)

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

Loss on Disposal of Capital Assets		(458)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	55,263	
Income Taxes	32,551	
Intergovernmental	8,045	
Interest	(4)	
Tuition and Fees	(1,140)	
Miscellaneous	11,272	
	105,987	105,987

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

84,000

Interest is reported as an expenditures when due in governmental funds but is accrued on outstanding debt on the statement of activities.

Accrued Interest Payable		340
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Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(9,031)	
Compensated Absences Payable	(205,502)	
	(214,533)	(214,533)

Change in Net Assets of Governmental Activities		(\$1,209,237)
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See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30 , 2003**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Revenues:				
Property Taxes	\$4,340,000	\$4,436,483	\$4,323,685	(\$112,798)
Income Taxes	1,590,000	1,510,000	1,563,825	53,825
Intergovernmental	7,722,469	7,699,132	7,839,088	139,956
Interest	160,000	130,000	119,050	(10,950)
Tuition and Fees	91,410	110,389	120,406	10,017
Miscellaneous	27,400	27,400	12,531	(14,869)
Total Revenues	13,931,279	13,913,404	13,978,585	65,181
Expenditures:				
Current:				
Instruction:				
Regular	8,415,391	8,542,304	7,826,957	715,347
Special	1,307,376	1,313,299	1,197,220	116,079
Vocational	294,180	300,090	284,177	15,913
Support Services:				
Pupils	763,379	772,069	625,760	146,309
Instructional Staff	618,207	645,245	520,671	124,574
Board of Education	45,310	45,310	34,429	10,881
Administration	1,542,859	1,586,463	1,458,745	127,718
Fiscal	533,875	508,875	415,126	93,749
Operation and Maintenance of Plant	2,187,505	2,197,535	1,886,909	310,626
Pupil Transportation	777,293	784,233	627,370	156,863
Central	25,000	25,000	18,410	6,590
Total Expenditures	16,510,375	16,720,423	14,895,774	1,824,649
Excess of Revenues Over (Under) Expenditures	(2,579,096)	(2,807,019)	(917,189)	1,889,830
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	600	86,561	88,626	2,065
Refund of Prior Year Receipts		(2,257)	(2,257)	
Other Financing Sources	1,000	1,000	944	(56)
Advances In	100,000	71,000	12,705	(58,295)
Advances Out	(100,000)	(100,000)	(85,905)	14,095
Transfers Out	(100,000)	(100,000)	(91,698)	8,302
Total Other Financing Sources (Uses)	(98,400)	(43,696)	(77,585)	(33,889)
Net Change in Fund Balance	(2,677,496)	(2,850,715)	(994,774)	1,855,941
Fund Balance at Beginning of Year	4,817,077	4,817,077	4,817,077	
Prior Year Encumbrances Appropriated	252,867	252,867	252,867	
Fund Balance at End of Year	\$2,392,448	\$2,219,229	\$4,075,170	\$1,855,941

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$107	\$23,158
Liabilities:		
Accounts Payable		259
Due to Students		22,700
Payable to External Parties		199
Total Liabilities		\$23,158
Net Assets:		
Held in Trust for Students	\$107	

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Donations	\$1,000
Deductions:	
Non-Instructional Services	<u>905</u>
Change in Net Assets	95
Net Assets at Beginning of Year	<u>12</u>
Net Assets at End of Year	<u><u>\$107</u></u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1888. The School District serves an area of approximately one hundred twelve square miles. It is located in Hardin and Wyandot Counties and includes all of Pleasant Township, portions of Cessna, Dudley, Goshen, Lynn, McDonald, and Taylor Creek Townships, and the City of Kenton. The School District is the 262nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-nine classified employees, one hundred fifty-nine certified teaching personnel, and nineteen administrative employees who provide services to 2,187 students and other community members. The School District currently operates eleven instructional/support buildings.

A. Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. As of June 30, 2003, there are no component units of the Kenton City School District.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fiduciary Funds

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

C. Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

1. Revenues - Exchange and Nonexchange Transactions

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

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

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

2. Deferred Revenues

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

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 was \$117,599, which includes \$6,007 assigned from other School District funds.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

G. Prepaid Items

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

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

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

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

O. Fund Balance Reserves

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

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

P. Interfund Transactions

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

Q. Extraordinary and Special Items

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

R. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the School District has implemented GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences". GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District's financial statements for fiscal year 2003.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. ACCOUNTABILITY AND COMPLIANCE

The Food Service Fund and Student Activities Fund had negative fund balances of \$52,477 and \$3,286, respectively, which was due to the application of generally accepted accounting principles.

At June 30, 2003, the Title I Special Revenue Fund had deficit cash, in the amount of \$2,422. This deficit violated the requirements of Ohio Rev. Code Section 5705.10.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$1,104,122)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	1,303,769
Accrued FY 2003, Not Yet Received in Cash	(802,883)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,648,722)
Accrued FY 2003, Not Yet Paid in Cash	1,740,491
Prepaid Items	(17,798)
Advances In	12,705
Advances Out	(85,905)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(392,309)
Budget Basis	(\$ 994,774)

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEPOSITS AND INVESTMENTS

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

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

Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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).

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

At fiscal year end, the School District had \$3,800 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

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

At fiscal year end, the carrying amount of the School District's deposits was \$4,709,663 and the bank balance was \$5,065,025. Of the bank balance, \$101,755 was covered by federal depository insurance and \$4,963,270 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

7. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts (student fees and billings for user charged services), interfund, accrued interest, intergovernmental, income taxes, amounts due from external parties, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	\$ 32,815
Other Governmental Funds	
Food Service	31,916
Title VI-B	64,927
Title I	126,927
Drug Free	5,371
Title VI-R	12,969
Miscellaneous Federal Grants	\$ 11,079
Total Other Governmental Funds	253,189
Total Intergovernmental Receivables	\$286,004

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. INCOME TAXES

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

9. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 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 for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$298,152 in the General Fund. The amount available as an advance at June 30, 2002, was \$767,863 in the General Fund.

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

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

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$97,959,610	51.51%	\$107,387,890	54.54%
Industrial/Commercial	34,503,900	18.15	35,209,600	17.88
Public Utility	8,835,590	4.65	8,850,500	4.50
Tangible Personal	48,857,296	25.69	45,447,265	23.08
Total Assessed Value	<u>\$190,156,396</u>	<u>100.00%</u>	<u>\$196,895,255</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$34.20	

10. CAPITAL ASSETS

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

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$638,639	\$0	\$0	\$638,639
Construction in Progress	0	38,393	0	38,393
Total Nondepreciable Capital Assets	<u>638,639</u>	<u>38,393</u>	<u>0</u>	<u>677,032</u>
Depreciable Capital Assets				
Land Improvements	\$552,322	\$54,339	\$0	\$606,661
Buildings and Building Improvements	3,324,085	20,638	0	3,344,723
Furniture and Fixtures	1,878,462	176,357	(32,624)	2,022,195
Equipment	127,237	1,200	0	128,437
Vehicles	877,789	30,252	0	908,041
Infrastructure	15,850	0	0	15,850
Total Depreciable Capital Assets	<u>6,775,745</u>	<u>282,786</u>	<u>(32,624)</u>	<u>7,025,907</u>

(continued)

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. CAPITAL ASSETS (Continued)

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Less Accumulated Depreciation				
Land Improvements	(277,325)	(17,954)	0	(295,279)
Buildings and Building Improvements	(2,127,744)	(97,998)	0	(2,225,742)
Furniture and Fixtures	(1,220,114)	(171,944)	32,166	(1,359,892)
Equipment	(67,811)	(8,918)	0	(76,729)
Vehicles	(553,576)	(51,594)	0	(605,170)
Infrastructure	(44)	(528)	0	(572)
Total Accumulated Depreciation	<u>(4,246,614)</u>	<u>(348,936)</u>	<u>32,166</u>	<u>(4,563,384)</u>
Depreciable Capital Assets, Net	<u>2,529,131</u>	<u>(66,150)</u>	<u>(458)</u>	<u>2,462,523</u>
Governmental Activities				
Capital Assets, Net	<u>\$3,167,770</u>	<u>(\$27,757)</u>	<u>(\$458)</u>	<u>\$3,139,555</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$185,047
Special	4,285
Vocational	2,909
Support Services:	
Pupils	10,729
Instructional Staff	16,781
Administration	9,204
Fiscal	7,180
Operation and Maintenance of Plant	54,197
Pupil Transportation	41,313
Non-Instructional Services	9,192
Extracurricular Activities	8,099
Total Depreciation Expense	<u>\$348,936</u>

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2003, the General Fund had an interfund receivable from other governmental funds, in the amount of \$76,020, to provide cash flow resources until the receipt of grant monies.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. RISK MANAGEMENT (Continued)

Coverage provided by the Hartford Insurance Group is as follows:

Property	\$46,382,732
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Coverage provided by the Ohio School Plan is as follows:

General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Stop Gap	1,000,000
Employee Benefits	
Per Claim	1,000,000
Aggregate	3,000,000
Errors and Omissions	
Per Injury	1,000,000
Aggregate	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	50,000

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

For fiscal year 2003, the School District participated in the Ohio School Plan ("Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001, was \$1,017,659, \$709,109, and \$681,217, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$6,247 made by the School District and \$9,065 made by plan members.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 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 \$154,021, \$96,259, and \$67,873, respectively; 49 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

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 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$78,762.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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 the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$138,748 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 (the latest information available), 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.

15. EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

16. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
Energy Conservation Notes					
FY 1994 4.85%	\$84,000	\$0	\$84,000	\$0	\$0
Compensated Absences Payable	834,317	226,749	21,247	1,039,819	93,142
Total Governmental Activities					
Long-Term Obligations	<u>\$918,317</u>	<u>\$226,749</u>	<u>\$105,247</u>	<u>\$1,039,819</u>	<u>\$93,142</u>

Energy Conservation Notes - On July 1, 1993, the School District issued \$687,000 in unvoted general obligation notes for providing energy conservation measures for the School District. The notes were issued under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372 for a nine year period, with final maturity during fiscal year 2003. The notes were fully retired in fiscal year 2003.

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

The School District's overall debt margin was \$17,720,573 with an unvoted debt margin of \$196,895 at June 30, 2003.

17. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2002	\$0	\$0	\$68,364
Current Year Set Aside Requirement	289,562	289,562	0
Qualifying Expenditures	(538,792)	(289,562)	0
Balance Carried Forward to Fiscal Year 2003	(249,230)	\$0	\$68,364
Set Aside Reserve Balance June 30, 2003	<u>\$0</u>	<u>\$0</u>	<u>\$68,364</u>

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

18. INTERFUND TRANSFERS

During fiscal year 2003, the General Fund made transfers to other governmental funds, in the amount of \$91,698, to move receipts to the debt service fund as debt payments became due and to subsidize various programs in other funds.

19. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Joint Vocational School

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

B. West Central Regional Professional Development Center

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

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

C. West Central Ohio Special Education Regional Resource Center

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

20. INSURANCE POOLS

A. Ohio School Plan

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

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

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

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

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

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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

21. STATE SCHOOL FUNDING DECISION

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

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

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

22. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The 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

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$62,968		\$62,968
School Breakfast Program	05-PU 02 05-PU 03	10.553	4,422 19,934 <u>24,356</u>		4,422 19,934 <u>24,356</u>	
National School Lunch Program	LL-P4 02 LL-P4 03	10.555	27,357 137,493 <u>164,850</u>		27,357 137,493 <u>164,850</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			189,206	62,968	189,206	62,968
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 02 C1-S1 03	84.010	(7,639) 416,002 <u>408,363</u>		129,502 391,244 <u>520,746</u>	
Total Title I Grants to Local Educational Agencies						
Special Education Grants to States (IDEA Part B)	6B-SF 02P 6B-SF 03P	84.027	158,010 <u>158,010</u>		6,415 198,448 <u>204,863</u>	
Total Special Education Grants to States						
Safe and Drug Free Schools State Grants	DR-S1 03	84.186	7,417		10,352	
Eisenhower Professional Development State Grants	MS-S1-02	84.281			6,602	
Innovative Education Program Strategies	C2-S1 02 C2-S1 03	84.298	1,917 11,826 <u>13,743</u>		1,917 11,826 <u>13,743</u>	
Total Innovative Education Program Strategies						
Education Technology State Grants	TJ-S1-03	84.318	2,432		1,700	
School Renovation Grants	AT-S2 02 AT-S3-03	84.352	363 9805 <u>10,168</u>		363 9805 <u>10,168</u>	
Total School Renovations, Idea, and Technology						
Improving Teacher Quality State Grants	TR-S1-02 TR-S1-03	84.367	111,687 <u>111,687</u>		18,708 105,322 <u>124,030</u>	
Total Improving Teacher Quality State Grants						
Total U.S. Department of Education			711,820		892,204	
Total Federal Assistance			<u>\$901,026</u>	<u>\$62,968</u>	<u>\$1,081,410</u>	<u>\$62,968</u>

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - BASIS OF ACCOUNTING

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

NOTE C - REIMBURSEMENT GRANTS

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

NOTE D - FOOD DONATION PROGRAM

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

NOTE E - TRANSFER OF FUNDS BETWEEN COST CENTERS

The following transfer between fund cost centers were approved by the Ohio Department of Education.

Grant and CFDA # / Fund, Cost Center	Transfer out	Transfer in
Title 1, Part A, ESEA - CFDA # 84.010		
572-9002	\$ (49,480)	
572-9003		\$ 49,480



**Auditor of State
Betty Montgomery**

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

Kenton City School District
Hardin County
400 Decatur Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the financial statements of the Kenton City School District, Hardin County (the "School District"), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated January 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 15, 2004.

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

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

Betty Montgomery
Auditor of State

January 15, 2004



Auditor of State Betty Montgomery

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

Kenton City School District
Hardin County
400 Decatur Street
Kenton, Ohio 43326

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 15, 2004.

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



Betty Montgomery
Auditor of State

January 15, 2004

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003
OMB CIRCULAR A -133 §.505**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 5, 2004**