



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, (the "School District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005, 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 February 14, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

February 14, 2005

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The discussion and analysis of Kenton City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for fiscal year 2005 are as follows:

In total, net assets decreased \$207,836, or just over 3.6 percent.

For fiscal year 2005, general revenues were \$13,960,077, or 80 percent of total revenues, a percentage which is consistent with the prior fiscal year. Dependence on property taxes and unrestricted state entitlements has remained between 80 to 85 percent for the past four fiscal years.

**Using the Basic Financial Statements**

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

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

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

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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

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

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

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

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004:

**Table 1  
Net Assets**

	<b>Governmental Activities</b>	
	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Current and Other Assets	\$9,860,926	\$9,794,001
Capital Assets, Net	3,007,421	3,153,588
Total Assets	<u>12,868,347</u>	<u>12,947,589</u>
<b>Liabilities:</b>		
Current and Other Liabilities	\$6,212,345	\$6,098,592
Long-Term Liabilities	1,119,348	1,104,507
Total Liabilities	<u>7,331,693</u>	<u>7,203,099</u>
<b>Net Assets:</b>		
Invested in Capital Assets	3,007,421	3,153,588
Restricted	242,573	294,759
Unrestricted	2,286,660	2,296,143
Total Net Assets	<u>\$5,536,654</u>	<u>\$5,744,490</u>

Total assets remained very comparable to the prior fiscal year. The only change of note was a decrease in depreciable capital assets, primarily the result of depreciation exceeding additions. There were no changes of note for liabilities.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The decrease in invested in capital assets corresponds to the decrease in capital assets. While the School District's restricted net assets do not represent a very significant percentage of overall net assets, restricted net assets when viewed alone did experience a somewhat significant decrease. Fewer outstanding receivables for grants in fiscal year 2005 caused this decrease.

Table 2 reflects the changes in net assets for fiscal year 2005 and 2004.

**Table 2  
Change in Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Program Revenues		
Charges for Services and Sales	\$692,924	\$709,212
Operating Grants, Contributions, and Interest	2,738,091	2,639,551
Capital Grants and Contributions	12,912	61,859
<b>Total Program Revenues</b>	<b>3,443,927</b>	<b>3,410,622</b>
General Revenues		
Property Taxes	4,397,406	4,486,047
Income Taxes	1,639,398	1,549,548
Grants and Entitlements	7,765,154	7,465,950
Interest	96,793	61,936
Miscellaneous	61,326	78,169
<b>Total General Revenues</b>	<b>13,960,077</b>	<b>13,641,650</b>
<b>Total Revenues</b>	<b>17,404,004</b>	<b>17,052,272</b>
<b>Expenses:</b>		
Instruction:		
Regular	\$8,489,606	\$8,766,810
Special	2,028,947	2,031,719
Vocational	329,157	311,538
Support Services:		
Pupils	765,113	525,523
Instructional Staff	732,612	664,072
Board of Education	32,422	35,947
Administration	1,504,718	1,511,318
Fiscal	444,988	444,251
Operation and Maintenance of Plant	1,634,488	1,501,555
Pupil Transportation	626,309	635,869
Central	366	26,209
Non-Instructional Services	760,316	766,777
Extracurricular Activities	262,798	215,525
<b>Total Expenses</b>	<b>17,611,840</b>	<b>17,437,113</b>
<b>Decrease in Net Assets</b>	<b>(\$207,836)</b>	<b>(\$384,841)</b>

Program revenues, which are primarily represented by charges for tuition, fees, and extracurricular activities, as well as restricted intergovernmental revenues were 20 percent of total revenues for fiscal year 2005, the same as for fiscal year 2004. Capital grants and contributions have declined due to a reduction in the school net monies provided by the State for replacing computers.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

As previously mentioned, general revenues were 80 percent of total revenues for fiscal year 2005 and remained consistent with the prior fiscal year. Tax revenues and unrestricted state entitlements will continue to be crucial in providing support for School District operations.

As should be expected, instruction costs represent the largest of the School District's expenses, almost 62 percent for fiscal year 2005. Overall, there was a two percent decrease in instruction costs from the prior fiscal year. Factors contributing to the decrease include eliminating teaching positions and minimal textbook replacement. The addition of an elementary guidance position along with the addition of two instructional assistant positions contributed to the increase in pupils and instructional staff costs. Also during fiscal year 2005, the School District closed an elementary school. By doing so, the administration was able to move its offices from a leased facility to that elementary school.

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

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Instruction:</b>				
Regular	\$8,489,606	\$8,766,810	\$7,460,917	\$7,630,282
Special	2,028,947	2,031,719	657,038	768,955
Vocational	329,157	311,538	279,228	264,500
<b>Support Services:</b>				
Pupils	765,113	525,523	755,371	517,731
Instructional Staff	732,612	664,072	732,612	664,072
Board of Education	32,422	35,947	32,422	35,947
Administration	1,504,718	1,511,318	1,504,718	1,511,318
Fiscal	444,988	444,251	444,988	444,251
Operation and Maintenance of Plant	1,634,488	1,501,555	1,634,488	1,501,555
Pupil Transportation	626,309	635,869	531,936	581,248
Central	366	26,209	366	26,209
Non-Instructional Services	760,316	766,777	44,716	62,275
Extracurricular Activities	262,798	215,525	89,113	18,148
Interest and Fiscal Charges	0	0	0	0
<b>Total Expenses</b>	<b>\$17,611,840</b>	<b>\$17,437,113</b>	<b>\$14,167,913</b>	<b>\$14,026,491</b>

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**The School District's Funds**

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

**General Fund Budgeting Highlights**

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

During fiscal year 2005, the School District amended its General Fund budget as needed. The original budget, final budget and actual revenues were comparable.

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

**Capital Assets and Debt Administration**

**Capital Assets** - At the end of fiscal year 2005, the School District had \$3,007,421 invested in capital assets (net of accumulated depreciation), a decrease of \$146,167, or almost 5 percent. Additions to capital assets included routine computer and computer related purchases, two buses, a van, and a pickup truck. Disposals for the fiscal year included some computer and related equipment, two buses, and a van. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**Debt** - At June 30, 2005, the only long-term obligation was for compensated absences.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Current Issues**

The School District is experiencing declining revenues in a declining economy with minimal growth in local taxes. During previous fiscal years, the School District's leading employer, Meritor, has consistently reduced its labor force from above five hundred employees to a little over one hundred.

During 2004, Meritor sold out to Syphris, who renegotiated lower wages and benefits with the union but has hired more employees and established more varied product lines, which hopefully will result in a more stable work force. 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. However the enrollment from fiscal year 2004 to fiscal year 2005 has stabilized.

The School District is very concerned with the loss of the tangible property taxes by H.B.66 and how the State promises to hold harmless well work. The base year for reimbursement was set for 2004, which was a terrible year for the economy and a low year for tangible personal property values. Not only does the reimbursement come from a very low year but no inflation in taxes received as years past will be collected. The challenge for the Administration and Board of Education is to provide quality education with less monies to spend. There were reductions in staff at the end of the 2003 and 2004 school years and a school building was closed in 2005. The school closing allowed the Administration to relocate their offices back to the Oaklief Elementary Building, which saved the Board approximately \$50,000 in rent and utilities. Signs of a turn-around in the economy have occurred with the collection of income taxes and local business reports. A Super Wal-Mart opened for business during April 2005 within our community and will bring with it some additional retail stores and employment.

During fiscal year 2004, reductions in staff started to take effect to bring expenditures under control. A fourth grade teacher at the elementary school, and two teachers and a media center position were eliminated at the middle school. One teacher and two instructional assistants were added in fiscal year 2005.

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,590,080
Accounts Receivable	13,900
Accrued Interest Receivable	7,894
Intergovernmental Receivable	171,334
Income Taxes Receivable	666,090
Prepaid Items	42,634
Inventory Held for Resale	5,757
Materials and Supplies Inventory	3,665
Property Taxes Receivable	4,359,572
Nondepreciable Capital Assets	688,891
Depreciable Capital Assets, Net	<u>2,318,530</u>
 Total Assets	 <u>12,868,347</u>
<b>Liabilities:</b>	
Accounts Payable	42,434
Contracts Payable	37,752
Accrued Wages and Benefits Payable	1,622,312
Intergovernmental Payable	465,527
Deferred Revenue	4,044,320
Long-Term Liabilities:	
Due Within One Year	82,004
Due in More Than One Year	<u>1,037,344</u>
 Total Liabilities	 <u>7,331,693</u>
<b>Net Assets:</b>	
Invested in Capital Assets	3,007,421
Restricted For:	
Set Asides	68,364
Other Purposes	174,209
Unrestricted	<u>2,286,660</u>
 Total Net Assets	 <u><u>\$5,536,654</u></u>

*See Accompanying Notes to Basic Financial Statements*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$8,489,606	\$117,636	\$911,053		(\$7,460,917)
Special	2,028,947		1,371,909		(657,038)
Vocational	329,157		49,929		(279,228)
Support Services:					
Pupils	765,113		6,742	3,000	(755,371)
Instructional Staff	732,612				(732,612)
Board of Education	32,422				(32,422)
Administration	1,504,718				(1,504,718)
Fiscal	444,988				(444,988)
Operation and Maintenance of Plant	1,634,488				(1,634,488)
Pupil Transportation	626,309	40,506	43,955	9,912	(531,936)
Central	366				(366)
Non-Instructional Services	760,316	362,308	353,292		(44,716)
Extracurricular Activities	262,798	172,474	1,211		(89,113)
<b>Total Governmental Activities</b>	<b>\$17,611,840</b>	<b>\$692,924</b>	<b>\$2,738,091</b>	<b>\$12,912</b>	<b>(14,167,913)</b>

**General Revenues:**

Property Taxes Levied for General Purposes	4,397,406
Income Taxes Levied for General Purposes	1,639,398
Grants and Entitlements not Restricted to Specific Programs	7,765,154
Interest	96,793
Miscellaneous	61,326
<b>Total General Revenues</b>	<b>13,960,077</b>
Change in Net Assets	(207,836)
Net Assets at Beginning of Year	5,744,490
<b>Net Assets at End of Year</b>	<b>\$5,536,654</b>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<b>General</b>	<b>Other Governmental</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,252,632	\$249,013	\$4,501,645
Accounts Receivable	12,642	1,258	13,900
Accrued Interest Receivable	7,882	12	7,894
Interfund Receivable	137,196		137,196
Intergovernmental Receivable	26,439	144,895	171,334
Income Taxes Receivable	666,090		666,090
Prepaid Items	28,699	13,935	42,634
Inventory Held for Resale		5,757	5,757
Materials and Supplies Inventory		3,665	3,665
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	88,435		88,435
Property Taxes Receivable	4,359,572		4,359,572
	<u>9,579,587</u>	<u>418,535</u>	<u>9,998,122</u>
<b>Total Assets</b>	<b>9,579,587</b>	<b>418,535</b>	<b>9,998,122</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities</b>			
Accounts Payable	28,272	14,162	42,434
Contracts Payable	37,752		37,752
Accrued Wages and Benefits Payable	1,463,007	159,305	1,622,312
Interfund Payable		137,196	137,196
Intergovernmental Payable	394,534	70,993	465,527
Deferred Revenue	4,257,118	33,143	4,290,261
	<u>6,180,683</u>	<u>414,799</u>	<u>6,595,482</u>
<b>Total Liabilities</b>	<b>6,180,683</b>	<b>414,799</b>	<b>6,595,482</b>
<b>Fund Balances:</b>			
Reserved for Property Taxes	233,578		233,578
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	20,071		20,071
Reserved for Encumbrances	322,538	16,068	338,606
Unreserved, Reported in:			
General Fund	2,754,353		2,754,353
Special Revenue Funds (Deficit)		(12,332)	(12,332)
	<u>3,398,904</u>	<u>3,736</u>	<u>3,402,640</u>
<b>Total Fund Balances</b>	<b>3,398,904</b>	<b>3,736</b>	<b>3,402,640</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$9,579,587</b>	<b>\$418,535</b>	<b>\$9,998,122</b>

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

Total Governmental Fund Balances \$3,402,640

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds. 3,007,421

Other long-term assets are not available to pay for current  
period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$7,190
Accrued Interest Receivable	1,470
Intergovernmental Receivable	41,644
Income Taxes Receivable	113,963
Property Taxes Receivable	<u>81,674</u>

Total 245,941

Compensated absences are not due and payable in the current  
period and, therefore, are not reported in the funds. (1,119,348)

Net Assets of Governmental Activities \$5,536,654

*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, 2005**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property Taxes	\$4,411,004		\$4,411,004
Income Taxes	1,632,595		1,632,595
Intergovernmental	8,390,317	1,553,526	9,943,843
Interest	96,754	16	96,770
Tuition and Fees	714,780		714,780
Extracurricular Activities		172,474	172,474
Charges for Services		362,308	362,308
Gifts and Donations		1,210	1,210
Miscellaneous	41,156	32,798	73,954
<b>Total Revenues</b>	<u>15,286,606</u>	<u>2,122,332</u>	<u>17,408,938</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	8,078,956	267,047	8,346,003
Special	1,417,719	607,900	2,025,619
Vocational	315,511		315,511
Support Services:			
Pupils	612,865	168,831	781,696
Instructional Staff	529,987	210,364	740,351
Board of Education	32,422		32,422
Administration	1,487,650	2,823	1,490,473
Fiscal	444,043		444,043
Operation and Maintenance of Plant	1,690,636		1,690,636
Pupil Transportation	658,002		658,002
Central	366		366
Non-Instructional Services		803,199	803,199
Extracurricular Activities	3,800	241,082	244,882
<b>Total Expenditures</b>	<u>15,271,957</u>	<u>2,301,246</u>	<u>17,573,203</u>
Excess of Revenues Over (Under) Expenditures	<u>14,649</u>	<u>(178,914)</u>	<u>(164,265)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers In		57,832	57,832
Transfers Out	(57,832)		(57,832)
<b>Total Other Financing Sources (Uses)</b>	<u>(57,832)</u>	<u>57,832</u>	
Changes in Fund Balances	(43,183)	(121,082)	(164,265)
Fund Balances at Beginning of Year	<u>3,442,087</u>	<u>124,818</u>	<u>3,566,905</u>
<b>Fund Balances at End of Year</b>	<u><u>\$3,398,904</u></u>	<u><u>\$3,736</u></u>	<u><u>\$3,402,640</u></u>

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Changes in Fund Balances - Total Governmental Funds (\$164,265)

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

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

Capital Outlay	\$197,243	
Depreciation	<u>(343,410)</u>	
		(146,167)

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

Property Taxes	(13,598)	
Income Taxes	6,803	
Intergovernmental	6,165	
Interest	46	
Tuition and Fees	8,278	
Miscellaneous	<u>(12,628)</u>	
		(4,934)

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 and, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	122,371	
Compensated Absences Payable	<u>(14,841)</u>	
		<u>107,530</u>

Change in Net Assets of Governmental Activities (\$207,836)

*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 EYAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$4,644,658	\$4,528,000	\$4,490,147	(\$37,853)
Income Taxes	1,520,470	1,598,000	1,597,857	(143)
Intergovernmental	8,228,460	8,344,792	8,390,467	45,675
Interest	63,000	86,000	93,130	7,130
Tuition and Fees	771,300	720,773	718,449	(2,324)
Miscellaneous	29,800	29,800	27,968	(1,832)
<b>Total Revenues</b>	<u>15,257,688</u>	<u>15,307,365</u>	<u>15,318,018</u>	<u>10,653</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	8,818,787	8,715,705	8,088,940	626,765
Special	1,487,805	1,506,737	1,425,515	81,222
Vocational	316,046	320,998	314,829	6,169
Support Services:				
Pupils	642,200	671,862	611,082	60,780
Instructional Staff	602,625	608,617	501,476	107,141
Board of Education	50,000	48,000	22,325	25,675
Administration	1,562,280	1,568,620	1,469,599	99,021
Fiscal	526,240	526,240	437,818	88,422
Operation and Maintenance of Plant	2,111,926	2,233,439	1,884,753	348,686
Pupil Transportation	829,349	831,349	690,036	141,313
Central	10,000	10,000	366	9,634
<b>Total Expenditures</b>	<u>16,957,258</u>	<u>17,041,567</u>	<u>15,446,739</u>	<u>1,594,828</u>
Revenues Under Expenditures	<u>(1,699,570)</u>	<u>(1,734,202)</u>	<u>(128,721)</u>	<u>1,605,481</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	18,350	18,350	9,696	(8,654)
Other Financing Sources	1,000	1,000	314	(686)
Advances In	200,000	250,000	204,454	(45,546)
Advances Out	(170,000)	(226,500)	(223,498)	3,002
Transfers Out	(30,000)	(58,000)	(57,816)	184
<b>Total Other Financing Sources (Uses)</b>	<u>19,350</u>	<u>(15,150)</u>	<u>(66,850)</u>	<u>(51,700)</u>
Changes in Fund Balance	(1,680,220)	(1,749,352)	(195,571)	1,553,781
Fund Balance at Beginning of Year	3,864,943	3,864,943	3,864,943	
Prior Year Encumbrances Appropriated	288,417	288,417	288,417	
<b>Fund Balance at End of Year</b>	<u><u>\$2,473,140</u></u>	<u><u>\$2,404,008</u></u>	<u><u>\$3,957,789</u></u>	<u><u>\$1,553,781</u></u>

See Accompanying Notes to the Basic Financial Statements.

KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$17,065	<u><u>\$31,772</u></u>
<b>Liabilities:</b>		
Due to Students	<u>0</u>	<u><u>\$31,772</u></u>
<b>Net Assets:</b>		
Scholarships	16,705	
Held in Trust for Students	<u>360</u>	
Total Net Assets	<u><u>\$17,065</u></u>	

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Private Purpose Trust</b>
<b>Additions:</b>	
Gifts and Donations	<u>\$9,186</u>
<b>Deductions:</b>	
Non-Instructional Services	668
Extracurricular Activities	<u>1,361</u>
Total Deductions	<u>2,029</u>
Change in Net Assets	7,157
Net Assets at Beginning of Year	<u>9,908</u>
Net Assets at End of Year	<u><u>\$17,065</u></u>

*See Accompanying Notes to the Basic Financial Statements.*

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**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**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 262<sup>nd</sup> largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by seventy-six classified employees, one hundred fifty-five certified teaching personnel, and twenty-one administrative employees who provide services to 2,100 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, 2005, there are no component units of the School District.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Kenton City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation**

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

**1. Government-Wide Financial Statements**

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

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

**2. Fund Financial Statements**

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

**B. Fund Accounting**

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

**1. Governmental Funds**

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**General Fund** - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio. The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Funds**

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

**C. Measurement Focus**

**1. Government-Wide Financial Statements**

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

**2. Fund Financial Statements**

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

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Non-exchange Transactions**

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

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

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

**2. Deferred Revenues**

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

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Expenses/Expenditures**

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

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the object level within each function and fund.

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

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

**F. Cash and Investments**

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

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit, U.S. treasury notes, and federal agency securities. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market prices.

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 2005 was \$96,754, which includes \$5,704 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, 2005  
(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, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

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

**I. Restricted Assets**

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

**J. Capital Assets**

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

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

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

<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, 2005  
(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 are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**L. Compensated Absences**

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

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

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

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

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

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

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. As of June 30, 2005, net assets restricted by enabling legislation was \$68,364.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 2005, the School District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers", GASB Statement No. 40, "Deposit and Investment Risk Disclosure", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other post-employment benefit plans. The implementation of this bulletin did not result in any change to the School District's financial statements.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)**

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**4. ACCOUNTABILITY AND COMPLIANCE**

At June 30, 2005, the Food Service, Idea B, Title I, Title VI-R, and Title II-D special revenue funds had deficit fund balances, in the amount of \$55,258, \$32,301, \$49,990, \$7,191, and \$4,838, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The School District Treasurer did not attend the training required to own investments in United States Treasury Notes, Federal Home Loan Bank Bonds and Notes, and in Federal Home Loan Mortgage Corporation Notes and Bonds. The lack of the required training violated Ohio Rev. Code Section 135.22

**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).

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**5. BUDGETARY BASIS OF ACCOUNTING (Continued)**

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

**Changes in Fund Balance**

GAAP Basis	(\$43,183)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	854,129
Accrued FY 2005, Not Yet Received in Cash	(815,507)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(1,720,428)
Accrued FY 2005, Not Yet Paid in Cash	1,923,565
Cash Adjustments:	
Unrecorded Activity FY 2005	2,800
Prepaid Items	8,159
Advances In	204,454
Advances Out	(223,498)
Transfers Out	16
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(386,078)</u>
Budget Basis	<u><u>(\$195,571)</u></u>

**6. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,996,388 of the School District's bank balance of \$3,298,158 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

**B. Investments**

As of June 30, 2005, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Notes	\$167,848	8/15/06
U.S. Treasury Notes	123,262	10/31/06
U.S. Treasury Notes	178,678	6/30/06
Federal Home Loan Bank Bonds	99,516	12/15/05
Federal Home Loan Bank Notes	174,080	7/21/06
Federal Home Loan Bank Notes	499,740	7/7/05
Federal Home Loan Mortgage Corporation Notes	123,653	2/15/06
Federal Home Loan Mortgage Corporation Bonds	124,857	9/15/05
Total Investments	<u>\$1,491,634</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The federal agency securities all carry a rating of AAA by Moodys. The School District has no investment policy dealing with credit risk beyond the requirements of State statute.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of investments to the School District's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
U.S. Treasury	\$469,788	31.5%
Federal Home Loan Bank	773,336	51.8
Federal Home Loan Mortgage Corporation	248,510	16.7
Total Investments	<u>\$1,491,634</u>	<u>100.0%</u>

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. RECEIVABLES**

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amount</b>
Governmental Activities	
General Fund	
JROTC	\$4,583
State of Ohio	2,172
Ohio Department of Education	524
Xenia Community School	19,160
Total General Fund	26,439
Other Governmental Funds	
Ohio Reads	18,432
Student Intervention	11,450
Idea B	58,659
Title I	25,660
Title V	1,188
Title II-A	23,856
Title II-D	5,650
Total Other Governmental Funds	144,895
Total Intergovernmental Receivables	\$171,334

**8. INCOME TAXES**

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

**9. PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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.

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**9. PROPERTY TAXES (Continued)**

Public utility property tax revenues received during calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received during calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received during calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received during calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, 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, 2005, was \$233,578 in the General Fund. The amount available as an advance at June 30, 2004, was \$312,721 in the General Fund.

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

The assessed values upon which fiscal year 2005 taxes were collected are:

	<b>2004 Second- Half Collections</b>		<b>2005 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$108,992,470	55.58%	\$110,560,140	57.16%
Industrial/Commercial	35,524,480	18.11	35,446,900	18.32
Public Utility	8,856,510	4.52	9,305,380	4.81
Tangible Personal	42,727,058	21.79	38,120,897	19.71
<b>Total Assessed Value</b>	<b>\$196,100,518</b>	<b>100.00%</b>	<b>\$193,433,317</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$34.20	

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**10. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
<b>Governmental Activities</b>				
Non-depreciable Capital Assets				
Land	\$638,639	\$0	\$0	\$638,639
Construction in Progress	0	50,252	0	50,252
Total Non-depreciable Capital Assets	<u>638,639</u>	<u>50,252</u>	<u>0</u>	<u>688,891</u>
<b>Depreciable Capital Assets</b>				
Land Improvements	\$692,961	\$1,400	\$0	\$694,361
Buildings and Building Improvements	3,369,098	0	0	3,369,098
Furniture and Fixtures	2,202,102	56,245	(471,923)	1,786,424
Equipment	143,617	10,348	0	153,965
Vehicles	928,840	78,998	(2,280)	1,005,558
Infrastructure	15,850	0	0	15,850
Total Depreciable Capital Assets	<u>7,352,468</u>	<u>146,991</u>	<u>(474,203)</u>	<u>7,025,256</u>
Less Accumulated Depreciation				
Land Improvements	(320,600)	(27,678)	0	(348,278)
Buildings and Building Improvements	(2,324,550)	(97,282)	0	(2,421,832)
Furniture and Fixtures	(1,494,165)	(157,495)	471,923	(1,179,737)
Equipment	(77,952)	(11,479)	0	(89,431)
Vehicles	(619,152)	(48,948)	2,280	(665,820)
Infrastructure	(1,100)	(528)	0	(1,628)
Total Accumulated Depreciation	<u>(4,837,519)</u>	<u>(343,410)</u>	<u>474,203</u>	<u>(4,706,726)</u>
Depreciable Capital Assets, Net	<u>2,514,949</u>	<u>(196,419)</u>	<u>0</u>	<u>2,318,530</u>
Governmental Activities Capital Assets, Net	<u>\$3,153,588</u>	<u>(\$146,167)</u>	<u>\$0</u>	<u>\$3,007,421</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$158,221
Special	6,578
Vocational	3,449
Support Services:	
Pupils	9,822
Instructional Staff	15,358
Administration	13,232
Fiscal	7,889
Operation and Maintenance of Plant	58,605
Pupil Transportation	38,616
Non-Instructional Services	10,784
Extracurricular Activities	20,856
Total Depreciation Expense	<u>\$343,410</u>

**11. INTERFUND ASSETS/LIABILITIES**

At June 30, 2005, the General Fund had an interfund receivable from other governmental funds, in the amount of \$137,196, to provide cash flow resources until the receipt of grant monies.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**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 2005, the School District contracted for the following insurance coverage.

Coverage provided by the Selective Insurance Company of South Carolina is as follows:

Property	\$45,455,020
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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 Occurrence	1,000,000
Aggregate	3,000,000
Errors and Omissions	
Per Occurrence	1,000,000
Aggregate	2,000,000
Excess Liability	1,000,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000

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

For fiscal year 2005, 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.

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**12. RISK MANAGEMENT (Continued)**

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**13. 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.

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**13. DEFINED BENEFIT PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$1,029,549, \$1,018,397, and \$1,017,659, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$10,230 made by the School District and \$14,275 made by plan members.

**B. School Employees Retirement System**

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004, and 2003 was \$208,347, \$175,154, and \$154,021, respectively; 50 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

**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, 2005, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

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

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**14. POSTEMPLOYMENT BENEFITS (Continued)**

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$79,983.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

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

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$107,031 for fiscal year 2005.

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, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**15. OTHER 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**15. OTHER EMPLOYEE BENEFITS (Continued)**

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

**B. Health Care Benefits**

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

**16. Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
Compensated Absences					
Payable	\$1,104,507	\$114,463	\$99,622	\$1,119,348	\$82,004

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

The School District's overall debt margin was \$17,408,999 with an unvoted debt margin of \$193,433 at June 30, 2005.

**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, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**17. SET ASIDES (Continued)**

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2005.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2004	(\$521,374)	\$0	\$68,364
Current Year Set Aside Requirement	301,811	301,811	0
Qualifying Expenditures	(372,033)	(301,811)	0
Balance Carried Forward to Fiscal Year 2005	(\$591,596)	\$0	\$68,364
Set Aside Reserve Balance June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$68,364</u>

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

**18. INTERFUND TRANSFERS**

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$57,832, 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 the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**19. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. West Central Ohio Special Education Regional Resource Center**

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

**20. INSURANCE POOLS**

**A. Ohio School Plan**

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

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

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

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

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**20. INSURANCE POOLS (Continued)**

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

**21. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

**B. Litigation**

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

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**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$70,371		\$70,371
School Breakfast Program	05-PU 04	10.553	5,168		5,168	
	05-PU 05		37,793		37,793	
Total School Breakfast program			42,961		42,961	
National School Lunch Program	LL-P4 04	10.555	30,042		30,042	
	LL-P4 05		199,133		199,133	
Total National School Lunch program			229,175		229,175	
Total U.S. Department of Agriculture - Nutrition Cluster			272,136	70,371	272,136	70,371
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 04	84.010	95,022		56,217	
	C1-S1 05		456,836		431,975	
Total Title I Grants to Local Educational Agencies			551,858		488,192	
Special Education Grants to States (IDEA Part B)	6B-SF 04P	84.027	34,109		9,015	
	6B-SF 05P		367,264		388,801	
Total Special Education Grants to States			401,373		397,816	
Safe and Drug Free Schools State Grants	DR-S1 05	84.186	13,974		13,974	
Innovative Education Program Strategies	C2-S1 04	84.298	4,963			
	C2-S1 05		7,532		8,720	
Total Innovative Education Program Strategies			12,495		8,720	
Education Technology State Grants	TJ-S1-04	84.318	37			
	TJ-S1-05		10,533		9,136	
Total Education Technology State Grants			10,570		9,136	
Improving Teacher Quality State Grants	TR-S1-04	84.367	33,789		17,037	
	TR-S1-05		101,031		110,862	
Total Improving Teacher Quality State Grants			134,820		127,899	
Total U.S. Department of Education			1,125,090		1,045,737	
<b>Total Federal Assistance</b>			<u>\$1,397,226</u>	<u>\$70,371</u>	<u>\$1,317,873</u>	<u>\$70,371</u>

See Accompanying Notes to the Schedule of Federal Awards Expenditures.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures presents the activity of all federal financial programs of the School District. The School 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 School District received reimbursement type grants for which expenditures are realized when revenue is received. These grants include School Breakfast Program and National School Lunch Program.

**NOTE D - FOOD DONATION PROGRAM**

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



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and aggregate remaining fund information of Kenton City School District, Hardin County, (the "School District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the School District's management dated February 14, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable condition.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated February 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

February 14, 2006



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of Kenton City School District, (the "School District"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the fiscal year ended June 30, 2005. In a separate letter to the School District's management dated February 14, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

### **Internal Control over Compliance**

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

We noted a certain matter involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses.

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



**Betty Montgomery**  
Auditor of State

February 14, 2005

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

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

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<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)?	Yes
<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?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010: Title I Grants to Local Educational Agencies CFDA # 10.550, 10.553, 10.555: Nutrition Cluster
<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**

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 135.22 (B)** states that to enhance the background and working knowledge of treasurers in investments, cash management, and ethics, the treasurer of state shall provide annual continuing education programs for treasurers. A treasurer annually shall complete the continuing education programs described in this section, unless the treasurer annually provides a notice of exemption described in division (E) of this Section.

The School District's Treasurer did not attend the required continuing education program. During May 2005, the School District purchased investments in United States Treasury Notes, Federal Home Loan Bank Bonds and Notes, and in Federal Home Loan Mortgage Corporation Notes and Bonds. The total value of these investments was \$1,500,000 and they were purchased through an investment advisor. These investments do not meet the definition of an exemption in division (E).

Unless the School District intends to comply with division (E) of this Code Section, the School District's Treasurer should attend the required continuing education programs.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2005-002
<b>CFDA Title and Number</b>	CFDA # 84.010: Title I Grants to Local Educational Agencies
<b>Federal Award Number/Year</b>	044172 – C1-S1-04 Fiscal Year 2004 044172 – C1-S1-05 Fiscal Year 2005
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Reportable Condition**

**Utilization of Separate Fund/Cost Centers for Grant Activity**

To help assure accountability and to assist in the preparation of reports, an entity maintains separate funds and/or cost centers to track receipts and expenditures for each federal grant and grant year. The School District's accounting records did not appear to support the Final Expenditure Report for Grant Year 2004. The final expenditure report for grant year 2004 reported total expenditures of \$535,879, however the accounting records only supported grant expenditures of \$512,680.64. This difference of \$23,198.36 was the result of the following accounting errors: 1) Fiscal year 2004, accounting records reported \$92,525.80 during Grant Year 2003 expenditures, when only \$56,628.54 expenditures were attributable to Grant Year 2003. The remaining \$35,897.26 were expenditures attributable to Grant Year 2004. In addition, in the Fiscal Year 2004 accounting records the approved carryover for Grant Year 2005 was not moved into the Grant Year 2005 fund/special cost center. Instead, expenditures in the amount of the approved carryover were adjusted out of the Grant Year 2005 fund/special cost center into the Grant Year 2004 fund/special cost center. Expenditures reported in the Final Expenditure Report were made within the period of availability for each grant period, even though the accounting records did not always reflect them in the appropriate grant year.

**FINDING 2005-002  
 (Continued)**

The following table summarizes the activity within the fund special cost centers:

	FY 2004 Grant Year		FY 2005 Grant Year		FY 2006 Grant Year
	2003	2004	2004	2005	2005
Expenditures in Accounting Records	92,525.80	456,463.64	56,217.00	431,974.80	13,719.83
Grant expenditures in the next FY		56,217.00		13,719.83	
Total Accounting Records by GY		<u>512,680.64</u>		<u>445,694.63</u>	
FER Reported Amounts		535,879.00		445,694.63	
Difference		(23,198.36)		-	
<b>Adjustments:</b>					
Adjustment (see explanation)	(56,628.54)	35,897.26			
Carryover amount for GY 05		(12,721.09)			
Adjusted for Grant Year Reports	<u>35,897.26</u>	<u>23,176.17</u>		<u>445,694.63</u>	
Insignificant Difference		(22.19)			

The failure to properly account for grant activity within the correct fund/special cost center could result in noncompliance with grant requirements and possible questioned costs. If there are questioned costs, the grantor agency could require the School District to return federal grant money.

The Treasurer should account for all grant activity in the appropriate fund/special cost center. Accounting records should support all grant expenditure reports without the necessity for additional spreadsheets or other calculations. Prior to submitting any federal grant report, the Treasurer should reconcile the report to the accounting records. The Treasurer should then print and maintain a copy of the supporting accounting records with the School District's copy of the grant report.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2004-001	Noncompliance with Activities allowed/ unallowed, allowable costs/cost principals, and reporting for the Improving Teacher Quality State Grants – CFDA # 84.367	Yes, along with the repayment of the associated questioned costs.	



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**KENTON CITY SCHOOL DISTRICT**

**HARDIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 23, 2006**