



**Auditor of State  
Betty Montgomery**



**KENT CITY SCHOOL DISTRICT  
PORTAGE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government–Wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	18
Statement of Fund Net Assets – Internal Service Fund.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund.....	20
Statement of Cash Flows – Internal Service Fund.....	21
Statement of Fiduciary Net Assets – Fiduciary Funds .....	22
Notes to the Basic Financial Statements .....	23
Schedule of Federal Awards Expenditures.....	49
Notes to the Schedule of Federal Awards Expenditures .....	50
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	51
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 .....	53
Schedule of Findings.....	55

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Kent City School District  
Portage County  
321 North Depeyster Street  
Kent, Ohio 44240

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District implemented Governmental Accounting Standards Board Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* which resulted in the restatement of fund balances at July 1, 2004. In addition, the District restated net assets at July 1, 2004 due to an understatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting of principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

**Betty Montgomery**  
Auditor of State

March 22, 2006

## ***Kent City School District***

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

The discussion and analysis of Kent City School District's 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2005 are as follows:

- During the year, the School District issued \$13,629,999 in general obligation bonds to refund \$13,630,000 of the 1997 School Improvement bonds to take advantage of favorable financing terms.
- Net assets of governmental activities increased by \$3,614,264 from 2004.
- General revenues accounted for \$38,058,381 in revenue or 84.6 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$6,910,517 or 15.4 percent of total revenues of \$44,968,898.
- The School District had \$41,354,634 in expenses related to governmental activities; only \$6,910,517 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$38,058,381 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$8,495,233, an increase of \$2,597,390 from 2004.

### **Using this Annual Financial Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Kent City School District, the general fund is the most significant fund, and the only governmental fund reported as a major fund.

***Kent City School District***

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's current property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the School Districts' activities are considered to be all Governmental Activities:

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

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

*Fund Financial Statements*

The analysis of the School District's major fund begins on page 8. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. Fund financial statements provide detailed information about the general fund, the School district's only major fund. Data from the other nonmajor funds are combined into a single, aggregated presentation.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.



**Kent City School District**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

**The School District as a Whole**

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. A comparative analysis is presented below.

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

*Table 1*  
*Net Assets*

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
<i>Current and other assets</i>	\$ 37,056,251	\$ 34,617,444
<i>Capital assets, net of depreciation</i>	<u>28,892,502</u>	<u>28,977,192</u>
<i>Total assets</i>	<u>65,948,753</u>	<u>63,594,636</u>
<b>Liabilities</b>		
<i>Current and other liabilities</i>	24,497,873	25,481,791
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	2,012,581	1,983,206
<i>Due in more than one year</i>	<u>32,682,500</u>	<u>33,717,939</u>
<i>Total liabilities</i>	<u>59,192,954</u>	<u>61,182,936</u>
<b>Net Assets</b>		
<i>Invested in capital assets, net of related debt</i>	10,007,818	10,025,286
<i>Restricted</i>	1,759,956	1,378,076
<i>Unrestricted</i>	<u>(5,011,975)</u>	<u>(8,261,827)</u>
<i>Total net assets</i>	<u>\$ 6,755,799</u>	<u>\$ 3,141,535</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School District's assets exceeded liabilities by \$6,755,799, an increase of \$3,614,264 from net assets at June 30, 2004.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2005. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$1,759,956 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$949,113 is restricted for debt service payments; \$387,710 is restricted for capital projects; and \$423,133 is restricted for other purposes. Unrestricted net assets report a deficit fund balance of (\$5,011,975) because of the School District's requirement to issue debt for the Kent Free Library. If this requirement did not exist, unrestricted net assets would be \$8,328,925 and could be used to meet the government's ongoing obligations to students and staff.

**Kent City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

Table 2 shows change in net assets for fiscal years 2004 and 2005.

*Table 2*  
*Changes in Net Assets*

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
<i>Program revenues:</i>		
Charges for services	\$ 3,472,111	\$ 3,227,375
Operating grants, contributions and interest	3,419,237	3,009,629
Capital grants and contributions	19,169	18,534
<i>General revenues:</i>		
Property taxes	23,128,480	22,196,314
Grants and entitlements	14,553,957	14,669,240
Investment earnings	345,911	134,247
Miscellaneous	<u>30,033</u>	<u>26,987</u>
Total revenues	<u>44,968,898</u>	<u>43,282,326</u>
<b>Program Expenses</b>		
<i>Instruction:</i>		
Regular	16,594,379	16,092,306
Special	4,193,968	4,047,772
Vocational	1,983,525	1,906,438
Adult/continuing	102,870	114,447
Other	360,740	418,955
<i>Support services:</i>		
Pupils	2,007,162	1,907,199
Instructional staff	2,841,924	2,808,513
Board of education	206,677	185,137
Administration	2,905,620	2,589,325
Fiscal	875,219	831,799
Business	471,906	374,864
Operation and maintenance of plant	3,234,915	3,545,063
Pupil transportation	1,309,046	1,324,575
Central	284,093	307,345
<i>Operation of non-instructional services:</i>		
Food service operations	1,079,292	971,347
Community services	411,482	418,418
Extracurricular activities	926,524	1,103,452
Interest and fiscal charges	1,560,292	1,437,627
Intergovernmental	<u>5,000</u>	<u>13,502,532</u>
Total expenses	<u>41,354,634</u>	<u>53,887,114</u>
Change in net assets	3,614,264	(10,604,788)
Net assets at beginning of year	<u>3,141,535</u>	<u>13,746,323</u>
Net assets at end of year	<u>\$ 6,755,799</u>	<u>\$ 3,141,535</u>

***Kent City School District***

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

***Governmental Activities***

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$23.1 million in 2005, representing an increase of \$932,166 over 2004. The increase in property taxes represents the first full year collection of property taxes for the library levy. General revenues from grants and entitlements, such as the school foundation program, generated over \$14.5 million. With the combination of taxes and intergovernmental funding comprising approximately 83.8% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

A review of Table 2 shows that the total cost of instructional services was \$23,235,482, or 56.2% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$4,849,086, or 11.7% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$4,459,422, or 10.8% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$3,234,915 made up 7.8% of all governmental expenses.

The most significant change in net assets was the large decrease in the intergovernmental expense of \$13,497,532 from 2004 to 2005. During 2004, the School District issued general obligation debt on behalf of the Kent Free Library. The accounting treatment for the issuance required the expense to be included in the general operation of the School District. For 2005 there were no similar transactions of this magnitude.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2004 and 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Kent City School District**

Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2005  
 Unaudited

*Table 3*  
*Governmental Activities*

	<i>Total Cost of Services <u>2005</u></i>	<i>Total Cost of Services <u>2004</u></i>	<i>Net Cost of Services <u>2005</u></i>	<i>Net Cost of Services <u>2004</u></i>
<b>Program Expenses</b>				
<i>Instruction:</i>				
<i>Regular</i>	\$ 16,594,379	\$ 16,092,306	\$ (14,587,402)	\$ (14,441,740)
<i>Special</i>	4,193,968	4,047,772	(2,953,085)	(3,015,051)
<i>Vocational</i>	1,983,525	1,906,438	(1,370,204)	(1,375,380)
<i>Adult/continuing</i>	102,870	114,447	(5,115)	(12,340)
<i>Other</i>	360,740	418,955	(360,740)	(418,955)
<i>Support services:</i>				
<i>Pupils</i>	2,007,162	1,907,199	(1,810,000)	(1,754,141)
<i>Instructional staff</i>	2,841,924	2,808,513	(2,074,120)	(1,932,996)
<i>Board of education</i>	206,677	185,137	(206,677)	(185,137)
<i>Administration</i>	2,905,620	2,589,325	(2,830,696)	(2,589,325)
<i>Fiscal</i>	875,219	831,799	(875,219)	(831,799)
<i>Business</i>	471,906	374,864	(367,335)	(327,586)
<i>Operation and maintenance of plant</i>	3,234,915	3,545,063	(3,180,538)	(3,470,258)
<i>Pupil transportation</i>	1,309,046	1,324,575	(1,265,452)	(1,300,802)
<i>Central</i>	284,093	307,345	(180,484)	(192,264)
<i>Operation non-instructional services:</i>				
<i>Food service operations</i>	1,079,292	971,347	(2,558)	31,150
<i>Community services</i>	411,482	418,418	(106,983)	(114,883)
<i>Extracurricular activities</i>	926,524	1,103,452	(702,217)	(762,442)
<i>Interest and fiscal charges</i>	1,560,292	1,437,627	(1,560,292)	(1,437,627)
<i>Intergovernmental</i>	5,000	13,502,532	(5,000)	(13,500,000)
<i>Total</i>	<u>\$ 41,354,634</u>	<u>\$ 53,887,114</u>	<u>\$ (34,444,117)</u>	<u>\$ (47,631,576)</u>

The dependence upon tax revenues for governmental activities is apparent with only 16.7% of governmental expenses supported by program revenues.

**The School District's Funds**

The School District's funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$60,511,226 and total expenditures and other financing uses were \$57,913,836. The total net change in fund balance across all governmental funds was an increase of \$2,597,390. Net increase in fund balance for the year was significant in the general fund, amounting to \$2,172,183 or 48.8%. The increase is largely attributable to significant increases in property tax revenue without similar increases in expenditures. Net increases across all other nonmajor governmental funds amounted to \$425,207, or 29.4%.

**Kent City School District**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

**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, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$36,054,257, which was slightly higher than the original budget estimate of \$35,138,775. This difference of \$915,482, or 2.6%, is considered insignificant. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized.

The original expenditures and other financing uses estimate of \$36,071,842 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$35,325,762, or \$746,080 lower, or 2.0%, which is considered insignificant. No significant expenditure budget revisions were posted to the general fund during the year. Even though the School District became aware of unexpected revenues, there was no intention of spending these additional revenues in any specific area.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005, the School District had \$28,892,502 invested in capital assets. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004:

*Table 4  
Capital Assets, at Fiscal Year End  
(Net of Depreciation)*

	<i>Governmental Activities</i>	
	<i>2005</i>	<i>2004</i>
<i>Land</i>	<i>\$ 1,449,535</i>	<i>\$ 1,449,535</i>
<i>Construction in progress</i>	<i>-</i>	<i>5,594</i>
<i>Land improvements</i>	<i>332,871</i>	<i>354,653</i>
<i>Buildings and improvements</i>	<i>25,872,130</i>	<i>26,513,909</i>
<i>Furniture, fixtures and equipment</i>	<i>382,134</i>	<i>614,450</i>
<i>Vehicles</i>	<i>855,832</i>	<i>768,886</i>
<i>Total capital assets</i>	<i>\$ 28,892,502</i>	<i>\$ 29,707,027</i>

The most significant capital expenditures by the School District during the year were for the purchase of four school buses totaling \$263,330 and two trucks for \$30,468. The total decrease in capital assets is due to depreciation expense of \$1,179,831 exceeding current year acquisitions of \$370,900. See Note 8 to the basic financial statements for detail on the School District's capital assets.

## ***Kent City School District***

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

### ***Debt***

At June 30, 2005 the School District had general obligation bonds outstanding of \$31,678,380, with \$1,260,000 due within one year. It also had capital lease obligations of \$716,394, with \$156,444 due within one year. The outstanding bond balance reflects a net decrease of \$817,406 which is due to the retirement of bonds. During fiscal year 2005, the School District issued new bonds to refund a portion of the 1997 School Improvement Bonds to take advantage of lower interest rates. The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund.

At June 30, 2005, the School District's overall legal debt margin was \$43,805,655, with a voted debt margin of \$13,038,542 and an unvoted debt margin of \$486,729. See Note 14 to the basic financial statements for detail on the School District's debt activity and long-term obligations.

### **Current Issues Affecting Financial Condition**

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, community support remains quite strong.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The Court directed the Governor and the legislature to address the fundamental issue creating the inequities. See Note 19 to the basic financial statements for more on this contingent matter.

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

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

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

This page is intentionally left blank.

***Kent City School District***  
**Statement of Net Assets**  
**June 30, 2005**

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 13,138,403
Cash and cash equivalents:	
In segregated accounts	48,486
Inventory held for resale	28,428
Materials and supplies inventory	76,785
Deferred charges	296,366
Receivables:	
Accounts	184,255
Intergovernmental	293,494
Accrued interest	103,065
Taxes	22,886,969
Capital assets:	
Land	1,449,535
Depreciable capital assets, net	27,442,967
Total capital assets	<u>28,892,502</u>
Total assets	<u>65,948,753</u>
<u>Liabilities:</u>	
Accounts payable	227,947
Accrued wages	2,842,971
Compensated absences payable	65,462
Intergovernmental payable	1,211,220
Undistributed monies	6,487
Accrued interest payable	107,000
Claims payable	283,455
Deferred revenue	19,753,331
Long-term liabilities:	
Due within one year	2,012,581
Due in more than one year	32,682,500
Total liabilities	<u>59,192,954</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	10,007,818
Restricted for:	
Capital projects	387,710
Debt service	949,113
Other purposes	423,133
Unrestricted	<u>(5,011,975)</u>
Total net assets	<u>\$ 6,755,799</u>

See accompanying notes to the basic financial statements.



**Kent City School District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2005**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 16,594,379	\$ 1,552,348	\$ 454,629	\$ -	\$ (14,587,402)
Special	4,193,968	139,284	1,101,599	-	(2,953,085)
Vocational	1,983,525	613,321	-	-	(1,370,204)
Adult/continuing	102,870	51,522	46,233	-	(5,115)
Other	360,740	-	-	-	(360,740)
Support services:					
Pupils	2,007,162	37,437	159,725	-	(1,810,000)
Instructional staff	2,841,924	46,416	721,388	-	(2,074,120)
Board of education	206,677	-	-	-	(206,677)
Administration	2,905,620	-	74,924	-	(2,830,696)
Fiscal	875,219	-	-	-	(875,219)
Business	471,906	104,571	-	-	(367,335)
Operation and maintenance of plant	3,234,915	45,686	8,691	-	(3,180,538)
Pupil transportation	1,309,046	1,811	22,614	19,169	(1,265,452)
Central	284,093	345	103,264	-	(180,484)
Operation of non-instructional services:					
Food service operations	1,079,292	594,168	482,566	-	(2,558)
Community services	411,482	60,895	243,604	-	(106,983)
Extracurricular activities	926,524	224,307	-	-	(702,217)
Interest and fiscal charges	1,560,292	-	-	-	(1,560,292)
Intergovernmental	5,000	-	-	-	(5,000)
Total governmental activities	<u>\$ 41,354,634</u>	<u>\$ 3,472,111</u>	<u>\$ 3,419,237</u>	<u>\$ 19,169</u>	<u>(34,444,117)</u>

General Revenues:

Property taxes levied for:

General purposes	20,643,100
Debt service	2,485,380
Grants and entitlements not restricted to specific programs	14,553,957
Investment earnings	345,911
Miscellaneous	30,033

Total general revenues 38,058,381

Change in net assets 3,614,264

Net assets at beginning of year - (Restated see Note 3) 3,141,535

Net assets at end of year \$ 6,755,799

See accompanying notes to the basic financial statements.

**Kent City School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 8,398,818	\$ 1,839,815	\$ 10,238,633
Cash and cash equivalents:			
In segregated accounts	-	48,486	48,486
Inventory held for resale	-	28,428	28,428
Materials and supplies inventory	71,546	5,239	76,785
Receivables:			
Accounts	168,398	1,818	170,216
Intergovernmental	4,527	288,967	293,494
Accrued interest	103,036	29	103,065
Interfund	111,250	-	111,250
Taxes	20,499,831	2,387,138	22,886,969
Total assets	<u>\$ 29,357,406</u>	<u>\$ 4,599,920</u>	<u>\$ 33,957,326</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 87,810	\$ 140,137	\$ 227,947
Accrued wages	2,605,541	237,430	2,842,971
Compensated absences payable	62,552	2,910	65,462
Interfund payable	-	111,250	111,250
Intergovernmental payable	1,121,974	89,246	1,211,220
Deferred revenue	18,848,833	2,147,923	20,996,756
Undistributed monies	6,487	-	6,487
Total liabilities	<u>22,733,197</u>	<u>2,728,896</u>	<u>25,462,093</u>
<u>Fund balances:</u>			
Reserved for encumbrances	294,808	448,918	743,726
Reserved for property taxes	1,813,369	239,215	2,052,584
Unreserved,			
Undesignated, reported in:			
General fund	4,516,032	-	4,516,032
Special revenue funds	-	325,577	325,577
Debt service fund	-	717,052	717,052
Capital projects funds	-	140,262	140,262
Total fund balances	<u>6,624,209</u>	<u>1,871,024</u>	<u>8,495,233</u>
Total liabilities and fund balances	<u>\$ 29,357,406</u>	<u>\$ 4,599,920</u>	<u>\$ 33,957,326</u>

See accompanying notes to the basic financial statements.

**Kent City School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2005**

<b>Total governmental fund balances</b>		\$ 8,495,233
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,892,502
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,081,054	
Tuition and fees	<u>162,371</u>	
		1,243,425
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		2,630,354
Deferred charges are included in the governmental activities in the statement of net assets.		296,366
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(107,000)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (31,678,380)	
Compensated absences	(2,300,307)	
Capital leases	<u>(716,394)</u>	
Total		<u>(34,695,081)</u>
Net assets of governmental activities		<u>\$ 6,755,799</u>

See accompanying notes to the basic financial statements.

**Kent City School District**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2005**

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 20,571,110	\$ 2,479,498	\$ 23,050,608
Intergovernmental	14,295,355	3,578,362	17,873,717
Interest	344,858	2,129	346,987
Tuition and fees	1,922,446	203,823	2,126,269
Extracurricular activities	-	303,778	303,778
Gifts and donations	14,286	56,974	71,260
Customer services	115,664	708,720	824,384
Rent	45,687	23,020	68,707
Miscellaneous	16,357	198,760	215,117
Total revenues	<u>37,325,763</u>	<u>7,555,064</u>	<u>44,880,827</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	15,468,577	692,638	16,161,215
Special	3,126,233	1,127,969	4,254,202
Vocational	1,973,627	58,976	2,032,603
Adult/Continuing	-	102,870	102,870
Other	360,740	-	360,740
Support services:			
Pupils	1,847,132	179,010	2,026,142
Instructional staff	2,006,125	795,856	2,801,981
Board of education	206,677	-	206,677
Administration	2,780,394	72,130	2,852,524
Fiscal	833,796	38,931	872,727
Business	485,104	-	485,104
Operation and maintenance of plant	2,861,245	344,646	3,205,891
Pupil transportation	1,102,891	31,190	1,134,081
Central	230,573	51,513	282,086
Operation of non-instructional services:			
Food service operations	-	1,065,131	1,065,131
Community services	106,964	303,250	410,214
Extracurricular activities	665,485	282,299	947,784
Capital outlay	263,770	101,536	365,306
Intergovernmental	-	5,000	5,000
Debt service:			
Principal retirement	157,182	1,161,000	1,318,182
Interest and fiscal charges	30,772	1,370,865	1,401,637
Issuance costs	-	169,190	169,190
Total expenditures	<u>34,507,287</u>	<u>7,954,000</u>	<u>42,461,287</u>
Excess of revenues over (under) expenditures	<u>2,818,476</u>	<u>(398,936)</u>	<u>2,419,540</u>
<u>Other financing sources (uses):</u>			
Refunding bonds issued	-	13,629,999	13,629,999
Premium on debt issuance	-	1,352,802	1,352,802
Payment to refunded bond escrow agent	-	(14,804,951)	(14,804,951)
Transfers in	-	647,598	647,598
Transfers out	(646,293)	(1,305)	(647,598)
Total other financing sources (uses)	<u>(646,293)</u>	<u>824,143</u>	<u>177,850</u>
Net change in fund balances	2,172,183	425,207	2,597,390
Fund balances at beginning of year, (Restated see Note 3)	4,452,026	1,445,817	5,897,843
Fund balances at end of year	<u>\$ 6,624,209</u>	<u>\$ 1,871,024</u>	<u>\$ 8,495,233</u>

See accompanying notes to the basic financial statements.

***Kent City School District***  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2005**

<b>Net change in fund balances - total governmental funds</b>		<b>\$ 2,597,390</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital asset additions	\$ 365,306	
Depreciation expense	<u>(1,179,831)</u>	
Excess of capital outlay over depreciation expense		(814,525)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property taxes	\$ 77,866	
Intergovernmental	(23,622)	
Tuition and fees	36,118	
Rent	(600)	
Miscellaneous	<u>(1,691)</u>	
Net change in deferred revenues during the year		88,071
Proceeds of bonds provide current financial resources and are reported as revenue in the governmental funds but are not reported as revenue in the statement of activities.		
		(13,629,999)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		14,803,878
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		
		157,182
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	\$ 31,476	
Decrease in accrued interest	16,677	
Current year issuance cost	169,190	
Amortization of premium	(9,588)	
Deferred cost of refunding	1,174,951	
Bond accretion	(178,622)	
Premium received for bonds	<u>(1,352,802)</u>	
Total additional expenditures		<u>(148,718)</u>
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		
		<u>560,985</u>
Change in net assets of governmental activities		<u><u>\$ 3,614,264</u></u>

See accompanying notes to the basic financial statements.

**Kent City School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget (Non-GAAP Basis) and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Taxes	\$ 19,047,097	\$ 19,541,151	\$ 19,311,811	\$ (229,340)
Intergovernmental	14,371,950	14,371,950	14,355,132	(16,818)
Interest	150,000	150,000	248,749	98,749
Tuition and fees	1,439,426	1,858,211	1,937,294	79,083
Rent	39,311	39,311	46,446	7,135
Gifts and donations	14,286	14,286	14,286	-
Customer services	54,040	56,350	117,508	61,158
Miscellaneous	11,000	11,000	10,460	(540)
Total revenues	<u>35,127,110</u>	<u>36,042,259</u>	<u>36,041,686</u>	<u>(573)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	15,763,324	15,442,895	15,423,403	19,492
Special	3,194,127	3,128,933	3,107,300	21,633
Vocational	1,922,557	1,883,316	1,968,472	(85,156)
Other	362,711	355,307	440,046	(84,739)
Support services:				
Pupils	1,875,294	1,837,099	1,857,849	(20,750)
Instructional staff	2,185,921	2,143,937	2,062,540	81,397
Board of education	204,548	200,373	206,516	(6,143)
Administration	2,800,153	2,741,511	2,667,267	74,244
Fiscal	882,568	864,554	826,793	37,761
Business	381,318	373,535	366,107	7,428
Operation and maintenance of plant	3,253,706	3,187,296	3,005,394	181,902
Pupil transportation	1,405,287	1,376,604	1,436,654	(60,050)
Central	215,852	211,464	231,488	(20,024)
Operation of non-instructional services:				
Community services	124,595	103,467	109,182	(5,715)
Extracurricular activities	641,474	628,381	669,572	(41,191)
Capital outlay	185,440	181,655	189,173	(7,518)
Total expenditures	<u>35,398,875</u>	<u>34,660,327</u>	<u>34,567,756</u>	<u>92,571</u>
Excess of revenues over (under) expenditures	<u>(271,765)</u>	<u>1,381,932</u>	<u>1,473,930</u>	<u>91,998</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of fixed assets	-	-	2,150	2,150
Refund of prior year expenditures	7,000	7,333	7,079	(254)
Refund of prior year receipts	(14,499)	(6,967)	(468)	6,499
Advances in	4,665	4,665	4,665	-
Advances out	(10,000)	(10,000)	(111,250)	(101,250)
Transfers out	(648,468)	(648,468)	(646,293)	2,175
Total other financing sources (uses)	<u>(661,302)</u>	<u>(653,437)</u>	<u>(744,117)</u>	<u>(90,680)</u>
Net change in fund balance	(933,067)	728,495	729,813	1,318
Fund balance at beginning of year	6,743,987	6,743,987	6,743,987	-
Prior year encumbrances appropriated	476,977	476,977	476,977	-
Fund balance at end of year	<u>\$ 6,287,897</u>	<u>\$ 7,949,459</u>	<u>\$ 7,950,777</u>	<u>\$ 1,318</u>

See accompanying notes to the basic financial statements.

***Kent City School District***  
**Statement of Fund Net Assets**  
**Internal Service Fund**  
**June 30, 2005**

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 2,899,770
Accounts receivable	14,039
Total assets	<u>2,913,809</u>
<u>Liabilities:</u>	
Claims payable	<u>283,455</u>
<u>Net assets:</u>	
Unrestricted	2,630,354
Total liabilities and net assets	<u>\$ 2,913,809</u>

See accompanying notes to the basic financial statements.

***Kent City School District***  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2005**

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 3,687,823
Other	30,781
Total operating revenues	<u>3,718,604</u>
<u>Operating expenses:</u>	
Purchased services	543,084
Claims	2,614,535
Total operating expenses	<u>3,157,619</u>
Operating income	<u>560,985</u>
Change in net assets	560,985
Net assets at beginning of year	<u>2,069,369</u>
Net assets at end of year	<u>\$ 2,630,354</u>

See accompanying notes to the basic financial statements.



***Kent City School District***  
**Statement of Cash Flows**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2005**

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received for charges for services	\$ 3,719,748
Cash payments to suppliers for goods and services	(543,084)
Cash payments for claims	<u>(2,580,316)</u>
Net cash provided by operating activities	<u>596,348</u>
 Net increase in cash and cash equivalents	 596,348
 Cash and cash equivalents at beginning of year	 <u>2,303,422</u>
Cash and cash equivalents at end of year	<u>\$ 2,899,770</u>
 Reconciliation of operating income to net cash <u>provided by operating activities:</u>	
Operating income	<u>\$ 560,985</u>
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	1,144
Increase (decrease) in liabilities:	
Claims payable	34,219
Total adjustments	<u>35,363</u>
Net cash provided by operating activities	<u>\$ 596,348</u>

See accompanying notes to the basic financial statements.

***Kent City School District***  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 80,104
Total assets	<u>\$ 80,104</u>
<u>Liabilities:</u>	
Accounts payable	\$ 3,583
Due to students	76,521
Total liabilities	<u>\$ 80,104</u>

See accompanying notes to the basic financial statements.

***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

---

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

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's eight instructional/support facilities staffed by 232 non-certificated employees and 358 certificated teaching and support personnel who provide services to 3,552 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. This includes general operations, food service, preschool and student-related activities of the School District. The St. Patrick's School is a nonpublic school located within School District boundaries. Current legislation provides for funding for this school. These monies are received and disbursed by the School District on behalf of the St. Patrick's School as directed by the school's management. Such transactions are reported as governmental 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 organizations' 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 their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2005.

The School District is associated with the Northeast Ohio Network for Educational Technology (NEOnet), the Six District Vocational Compact, and which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 17. In addition, the School District is associated with the Kent Free Library and Kent Digital Academy, which are defined as related organizations, as more fully explained in Note 18.

***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation - Fund Accounting**

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

## ***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

### Governmental Fund Types

Governmental funds focus 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 has only one major governmental fund:

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

### Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund: The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for revenue received from other funds and the settlement expenses for medical, surgical, prescription drug, and dental and vision claims of School District employees.

### Fiduciary Fund Types

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

## C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

## ***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

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. The internal service fund and agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

### Revenue - 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 that 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 year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 to be both measurable and available at fiscal year-end: property taxes available as an advance, investment earnings, tuition, grants and entitlements, and student fees.

### Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (excluding delinquent taxes) for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account. Unused donated commodities are reported in the account "Inventory Held for Resale" within the basic financial statements.

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 the governmental funds.

D. Budgets and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The primary level of budgetary control is at the function level for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to overnight repurchase agreements, certificates of deposit, and interest in STAR Ohio, the State Treasurer's Investment Pool. All investments of the School District had a maturity of two years or less. These investments are stated at cost, which approximates market value (fair value). Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as explained in Note 5.

***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

For presentation on the basic financial statements, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

F. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

G. Inventory

On the governmental-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories of the general fund were not significant at the end of the year. Inventories of the food service special revenue fund consist of donated food, purchased food and supplies held for resale.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. Restricted assets may include unexpended revenues restricted for the purchase of school buses, and amounts required to be set aside by the School District for the purchase of textbooks or for the acquisition or construction of capital assets. Restricted assets may also include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. The School District expended all restricted assets in accordance with specific restrictions during the previous fiscal year. See Note 13 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

I. Capital Assets

General capital assets are those assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. The School District's policy is not to capitalize interest costs incurred as part of construction.



**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

<u>Description</u>	<u>Estimated Lives</u>
<i>Land improvements</i>	<i>20 years</i>
<i>Buildings and improvements</i>	<i>10 - 40 years</i>
<i>Furniture, fixtures and equipment</i>	<i>5 - 10 years</i>
<i>Vehicles</i>	<i>10 years</i>

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

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

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Interfund Transactions

Interfund transactions are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of activities.

O. 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.

P. Fund Balance Reserves

The School District records reservations for portions of fund balances, which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates the portion of fund balances that are available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes.

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET ASSETS**

---

For fiscal year 2005, the School District has implemented GASB Statement No. 40, “Deposits and Investment Risk Disclosures” and; GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers”.

As a result of the implementation of the Technical Bulletin certain beginning fund balances were required to be restated. These restatements involve reporting pension and other postemployment benefit liabilities on the governmental fund financial statements where beforehand were exclusively reported on the government-wide financial statements.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

The restatement of fund balance is presented below:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<i>Fund balances at June 30, 2004</i>	\$ 4,817,067	\$ 1,482,221	\$ 6,299,288
<i>Restatement of intergovernmental payable</i>	<u>(365,041)</u>	<u>(36,404)</u>	<u>(401,445)</u>
<i>Restated fund balances at July 1, 2004</i>	<u>\$ 4,452,026</u>	<u>\$ 1,445,817</u>	<u>\$ 5,897,843</u>

Following the close of the previous fiscal year, an inventory of capital assets was conducted and a few assets were revealed to be erroneously reported. As a result of these errors, a restatement of the capital asset balances, accumulated depreciation and net assets is required.

The restatement of net assets is presented below:

	<u>Governmental Activities</u>
<i>Net assets at June 30, 2004</i>	\$ 2,411,700
<i>Restatement of capital assets, net of depreciation</i>	<u>729,835</u>
<i>Restated net assets at July 1, 2004</i>	<u>\$ 3,141,535</u>

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

---

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above 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 presentation for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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 for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

**KENT CITY SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

*Net Change in Fund Balance*

	<u>General</u>
<i>GAAP basis</i>	\$ 2,172,183
<i>Revenue accruals</i>	(1,265,518)
<i>Advances in</i>	(4,665)
<i>Expenditure accruals</i>	(509,308)
<i>Advances out</i>	(111,250)
<i>Encumbrances (Budget Basis)</i>	
<i>outstanding at year end</i>	<u>448,371</u>
<i>Budget basis</i>	<u>\$ 729,813</u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

---

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

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

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

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

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or securities 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 other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on hand

At fiscal year-end, the School District had \$1,306 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents".

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, the carrying amount of the School District's deposits was \$11,023,183. The School District's bank balance of \$11,270,890 was exposed to custodial credit risk as follows:

<i>Uninsured and collateral held by pledging bank's trust department and not in the School District's name</i>	<i>\$ 10,862,035</i>
--	----------------------

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreements	\$ 430,000	Daily	N/A <sup>(1)</sup>
STAR Ohio	1,812,504	N/A	AAAm <sup>(2)</sup>
	<u>\$ 2,242,504</u>		

<sup>(1)</sup> Underlying securities are exempt.

<sup>(2)</sup> Standard and Poor's rating

The School District's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

All interest is legally required to be placed in the general, building, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2005 amount to \$344,858, which includes \$108,818 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$430,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation.

**NOTE 6 - PROPERTY TAX**

---

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed at 35% of true value and public utility tangible personal property currently is assessed at varying percentages of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

Tangible personal property taxes may be paid annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Portage County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by year-end are available to finance the current fiscal year operations. The amount available to be advanced can vary based on the date the tax bills are sent and on the collection of delinquent taxes. The Board has passed a resolution to accept advances of property taxes and make them available for appropriation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes, which became measurable as of year-end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as advances at year-end were \$1,813,369 in the general fund and \$239,215 in the bond retirement debt service fund, and are recognized as revenue on the fund financial statements.

On the accrual basis, collectible delinquent property taxes have been recorded as revenue on the statement of activities.

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2004</u> <u>Assessed Value</u>	<u>2003</u> <u>Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 328,211,160	\$ 323,030,170
Commercial, industrial and minerals	104,771,250	104,130,220
Public utilities	177,210	173,920
<u>Tangible Personal Property</u>		
General	37,441,075	38,535,832
Public utilities	16,128,800	16,257,450
Total	<u>\$ 486,729,495</u>	<u>\$ 482,127,592</u>

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 7 - RECEIVABLES**

Receivables at year-end consisted of taxes, accounts (tuition and excess costs), accrued interest, and intergovernmental grants and entitlements. 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. The general fund accounts receivable at year-end consisted of tuition, excess costs and other miscellaneous reimbursements of \$168,398. Also, the general fund and several special revenue funds recorded intergovernmental receivables for state and federal grants and reimbursements totaling \$293,494.

**NOTE 8 – CAPITAL ASSETS**

Capital asset balances by classification decreased by \$6,991,354, and accumulated depreciation decreased by \$7,721,189 for a net restatement of \$729,835 as result of a physical inventory of capital assets. Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

<i>Governmental Activities</i>	<i>Restated Balance June 30, 2004</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2005</i>
<i>Capital assets, not being depreciated:</i>				
<i>Land</i>	\$ 1,449,535	\$ -	\$ -	\$ 1,449,535
<i>Construction in progress</i>	<u>5,594</u>	<u>-</u>	<u>(5,594)</u>	<u>-</u>
<i>Total capital assets, not being depreciated</i>	<u>1,455,129</u>	<u>-</u>	<u>(5,594)</u>	<u>1,449,535</u>
<i>Capital assets, being depreciated:</i>				
<i>Land improvements</i>	435,632	-	-	435,632
<i>Buildings and improvements</i>	36,735,363	68,155	-	36,803,518
<i>Furniture, fixtures and equipment</i>	1,756,967	8,507	-	1,765,474
<i>Vehicles</i>	<u>2,039,813</u>	<u>294,238</u>	<u>-</u>	<u>2,334,051</u>
<i>Total capital assets, being depreciated</i>	<u>40,967,775</u>	<u>370,900</u>	<u>-</u>	<u>41,338,675</u>
<i>Less: Accumulated depreciation</i>				
<i>Land improvements</i>	(80,979)	(21,782)	-	(102,761)
<i>Buildings and improvements</i>	(10,221,454)	(709,934)	-	(10,931,388)
<i>Furniture, fixtures and equipment</i>	(1,142,517)	(240,823)	-	(1,383,340)
<i>Vehicles</i>	<u>(1,270,927)</u>	<u>(207,292)</u>	<u>-</u>	<u>(1,478,219)</u>
<i>Total accumulated depreciation</i>	<u>(12,715,877)</u>	<u>(1,179,831)</u>	<u>-</u>	<u>(13,895,708)</u>
<i>Total capital assets being depreciated, net</i>	<u>28,251,898</u>	<u>(808,931)</u>	<u>-</u>	<u>27,442,967</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 29,707,027</u>	<u>\$ (808,931)</u>	<u>\$ (5,594)</u>	<u>\$ 28,892,502</u>



**KENT CITY SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 796,501
<i>Support services:</i>	
<i>Pupils</i>	2,327
<i>Instructional staff</i>	119,541
<i>Administration</i>	9,613
<i>Operation and maintenance of plant</i>	26,087
<i>Pupil transportation</i>	195,091
<i>Food service operations</i>	5,084
<i>Extracurricular activities</i>	<u>25,587</u>
<i>Total depreciation expense</i>	<u>\$ 1,179,831</u>

**NOTE 9 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

---

A. Interfund balances at June 30, 2005 consisted of the following:

<i>Due to general fund from:</i>	
<i>Nonmajor governmental funds</i>	\$ 111,250

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005, all interfund loans outstanding are anticipated to be repaid in fiscal year 2006

B. Transfers at June 30, 2005 consisted of the following:

<i>Transfers to nonmajor governmental funds from:</i>	
<i>General fund</i>	\$ 646,293
<i>Nonmajor governmental funds</i>	<u>1,305</u>
<i>Total</i>	<u>\$ 647,598</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 10 - RISK MANAGEMENT**

---

A. Property and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

B. Employee Medical Benefits

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$283,455, reported in the fund at year end was estimated by the third party administrator and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund’s claims liability during 2004 and 2005 were:

<i>Fiscal Year</i>	<i>Balance at beginning of year</i>	<i>Current year claims</i>	<i>Claim payments</i>	<i>Balance at end of year</i>
2004	\$ 205,113	2,797,033	(2,752,910)	\$ 249,236
2005	\$ 249,236	2,614,535	(2,580,316)	\$ 283,455

C. Worker’s Compensation

The School District participates in the Ohio School Board Association (OSBA) Worker’s Compensation Group Rating Program, an insurance purchasing pool established in April 1991. The program was created by the OSBA as a result of the Worker’s Compensation group rating plan as defined in Section 4123.29 of the Ohio Revised Code. The group rating program allows school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

The School District pays the State Bureau of Worker’s Compensation a premium based on a rate per \$100 of salaries.

**NOTE 11 – DEFINED BENEFIT PENSION PLANS**

---

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by contacting SERS, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website, www.ohsers.org, under Forms and Publications.

## ***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$579,315, \$562,650, and \$286,077, respectively; 39% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$350,555, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable.

### **B. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries and the School District was required to contribute an actuarially determined rate of 14% of annual covered payroll, which includes 13% for pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,575,411, \$2,532,296, and \$1,150,516, respectively; 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$437,235, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2005 were \$20,127 made by the School District and \$54,251 made by the plan members.

**NOTE 12 - POST-EMPLOYMENT BENEFITS**

---

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$198,109 during the 2005 fiscal year. The balance in the Health Care Stabilization Fund for the STRS was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, the net health care costs paid by the STRS were \$254,780,000 and eligible benefit recipients totaled 115,395.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$268,648, which includes a surcharge of \$80,659 during the 2005 fiscal year.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of 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% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claims costs. The number of participants eligible to receive benefits is 58,123.

**NOTE 13- STATUTORY RESERVES**

---

The School District is required by State statute to annually set-aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may only be used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the other set-asides. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>
<i>Set-aside cash balance as of June 30, 2004</i>	\$ (592,587)	\$ -
<i>Current year set-aside requirement</i>	537,025	537,025
<i>Qualifying disbursements</i>	<u>(535,039)</u>	<u>(1,427,525)</u>
<i>Total</i>	<u>\$ (590,601)</u>	<u>\$ (890,500)</u>
<i>Balance carried forward to future years</i>	<u>\$ (590,601)</u>	

**KENT CITY SCHOOL DISTRICT**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005**NOTE 14 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS**

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

<u>Governmental activities</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
<i>1997 School improvement bonds,</i>					
Serial bonds	\$ 14,865,000	\$ -	\$ (14,235,000)	\$ 630,000	\$ 630,000
Capital appreciation bonds	356,187	-	-	356,187	-
Accretion on bonds	550,051	126,938	-	676,989	-
<i>1998 School improvement bonds,</i>					
Serial bonds	2,695,000	-	(125,000)	2,570,000	135,000
Capital appreciation bonds	139,998	-	-	139,998	-
Accretion on bonds	120,929	27,468	-	148,397	-
<i>2004 Library bonds</i>					
Serial and term bonds	13,260,000	-	(350,000)	12,910,000	355,000
Capital appreciation bonds	239,996	-	-	239,996	-
Accretion on bonds	3,900	16,157	-	20,057	-
Premium	183,725	-	(12,878)	170,847	-
<i>1995 Energy conservation bonds,</i>					
	81,000	-	(81,000)	-	-
<i>2004 School improvement refunding</i>					
Serial and term bonds	-	13,580,000	-	13,580,000	140,000
Capital appreciation bonds	-	49,999	-	49,999	-
Accretion on bonds	-	8,059	-	8,059	-
Premium	-	1,352,802	-	1,352,802	-
Unamortized deferred cost of refunding	-	(1,174,951)	-	(1,174,951)	-
<b>Total Bonds</b>	<b>32,495,786</b>	<b>13,986,472</b>	<b>(14,803,878)</b>	<b>31,678,380</b>	<b>1,260,000</b>
<u>Other Obligations</u>					
Compensated absences	2,331,783	699,011	(730,487)	2,300,307	596,137
Capital leases payable	873,576	-	(157,182)	716,394	156,444
<b>Total other liabilities</b>	<b>3,205,359</b>	<b>699,011</b>	<b>(887,669)</b>	<b>3,016,701</b>	<b>752,581</b>
<i>Governmental activities</i> <i>long-term liabilities</i>	<u>\$ 35,701,145</u>	<u>\$ 14,685,483</u>	<u>\$ (15,691,547)</u>	<u>\$ 34,695,081</u>	<u>\$ 2,012,581</u>

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>General Obligation Bonds</u>			
1997 School improvement	\$ 18,286,185	5.10%	12/1/2021
1998 School improvement	3,499,998	5.10%	12/1/2021
2004 Library	13,500,000	1.5 - 5.00%	12/1/2028
2004 School improvement refunding	13,629,999	32.50%	12/1/2021
1995 Energy Conservation	660,000	3 - 5.25%	12/1/2004

General Obligation Bonds: General obligation bonds are direct obligations of the School District for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement debt service fund.

During the 1997 and 1998 fiscal years, the School District issued general obligation bonds to finance construction and improvements of school buildings and facilities. Also, during fiscal year 2004, the School District issued library bonds. All of these bond issues include serial and capital appreciation bonds. Current year additions amounted to \$126,938, \$27,468, and \$16,157, respectively, which represent the accretion of discounted interest. The final amounts of the 1997, 1998 and 2004 capital appreciation bonds will be \$670,000, \$150,000 and \$510,000, respectively.

During fiscal year 2005, the School District issued \$13.6 million in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 3.0-5.25% for the serial bonds and 32.5% for the capital appreciation bonds. The bonds were used to refund \$13.6 million of outstanding School Improvement Bonds with an average interest rate of 5.1%. The final amount of the 2004 capital appreciation bonds will be \$1,015,000. The bond proceeds consisted of bond principal and \$1,352,802 of premium. The net proceeds of \$14.9 million (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was significant and will be amortized over the life of the new bonds using the bonds outstanding method of amortization. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

The School District advance refunded the School Improvement Bonds to reduce their total debt service payments over the next 11 years by \$1,002,483 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$693,077.

Other Obligations: Compensated absences will be paid from the fund from which the person is paid. In prior years, capital lease obligations were typically paid from the general fund.

**KENT CITY SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

Principal and interest requirements to amortize all bonds outstanding at June 30, 2005 are as follows:

<i>Fiscal</i> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,260,000	\$ 1,229,263	\$ 2,489,263
2007	834,751	1,279,372	2,114,123
2008	866,435	1,293,452	2,159,887
2009	1,284,493	1,253,926	2,538,419
2010	1,321,639	1,222,773	2,544,412
2011-2015	6,678,866	5,955,023	12,633,889
2016-2020	8,969,996	3,547,904	12,517,900
2021-2025	6,195,000	1,162,156	7,357,156
2026-2029	<u>3,065,000</u>	<u>254,894</u>	<u>3,319,894</u>
<i>Total</i>	<u>\$ 30,476,180</u>	<u>\$ 17,198,763</u>	<u>\$ 47,674,943</u>

**NOTE 15 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

---

Prior to the current fiscal year, the School District entered into capitalized lease agreements for the acquisition of copiers and a district-wide telephone system. It has also entered into a capitalized lease agreement for the renovation of a school building. These leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$429,942 and as buildings in the amount of \$1,000,000. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$157,182.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

<i>Fiscal</i> <u>Year</u>	<u>Lease</u> <u>Payments</u>
2006	\$ 181,477
2007	181,477
2008	181,477
2009	181,477
<i>Thereafter</i>	<u>55,451</u>
<i>Total minimum lease payments</i>	781,359
<i>Less: amount representing interest</i>	<u>(64,965)</u>
<i>Total</i>	<u>\$ 716,394</u>



**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 16 - OPERATING LEASES - LESSEE DISCLOSURE**

---

During a previous fiscal year, the School District entered into a sixty month, noncancelable operating lease arrangement for the lease of copiers. Total costs for such leases were \$33,915 for the current fiscal year. The following is a schedule of the future minimum lease payments required under the operating leases.

<i>Fiscal</i>	<i>Lease</i>
<u>Year</u>	<u>Payments</u>
2006	\$ 33,915
2007	<u>12,192</u>
<i>Total</i>	<u>\$ 46,107</u>

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

---

The Northeast Ohio Network for Educational Technology (NEOnet) is the computer service Organization or Data Acquisition Site (DAS) used by the School District. NEOnet is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All school districts in the consortium are required to pay fees, charges and assessments as charged. NEOnet is governed by a board made up of superintendents (or designees) from all of the participating school districts. An elected Executive Board consisting of nine members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOnet are made from the general fund. During fiscal year 2005, the School District contributed \$49,416 to NEOnet. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

The Six District Vocational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. During fiscal year 2005, the School District contributed \$35,000 to the Six District Vocational Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

***KENT CITY SCHOOL DISTRICT***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 18 - RELATED ORGANIZATIONS**

---

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

During fiscal year 2005, the School District provided educational management information systems coordinating services and other administrative services to the Kent Digital Academy. As of June 30, 2005, all of these services were paid in full. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Kent Digital Academy, 321 N. Depeyster Street, Kent, OH 44240.

**NOTE 19 - CONTINGENCIES**

---

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

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.

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**KENT CITY SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 20 – ACCOUNTABILITY**

---

As of June 30, 2005, several special revenue funds had deficit fund balances/net assets. These deficits were caused by the application of GAAP. The general fund provides advances to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had deficit balances:

<i>Fund</i>	<i>Amount</i>
<i>Rotary</i>	\$ 3,300
<i>EMIS</i>	3,137
<i>DPLA</i>	4,964
<i>Student Reading Intervention</i>	81
<i>Title I</i>	29,196
<i>IDEA Preschool Grant for the Handicapped</i>	691

**NOTE 21 – SUBSEQUENT EVENT**

---

On January 10, 2006 the School Board approved the placement of a continuing operating levy on the May 2, 2006 ballot. The 6.9 mill levy is estimated to generate \$3,319,354 annually.

**This page intentionally left blank.**

**KENT CITY SCHOOL DISTRICT  
PORTAGE COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
<b>Child Nutrition Cluster</b>						
Food Commodity Distribution		10.550		\$24,086		\$24,086
School Breakfast Program	05-PU	10.553	\$78,248		\$78,248	
National School Lunch Program	LLP4-04/05	10.555	271,099		271,099	
<b>Total U.S. Department of Agriculture - Child Nutrition Cluster</b>			<b>349,347</b>	<b>24,086</b>	<b>349,347</b>	<b>24,086</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education - Grants to States (IDEA Part B)	6BSA-04/05	84.027	75,000		74,052	
	6BPM-05		25,000		25,007	
	6BSF-04/05		798,230		700,896	
Subtotal - Special Education Grants to States			898,230		799,955	
Special Education - Preschool Grants	PG-S1-05	84.173	32,661		31,137	
Subtotal - Special Education Cluster			930,891		831,092	
Adult Education - State Grant Program	ABS1-05	84.002	72,502		78,721	
Grants to Local Educational Agencies (Title I)	C1S1-04/05	84.010	706,597		835,465	
Vocational Education - Basic Grants to State	20C1-04/05	84.048	71,700		71,700	
Safe and Drug Free Schools - National Grant	T4S1-04	84.184C	(1,775)		3	
Safe and Drug Free Schools (Title IV-A)	DRS1-04/05	84.186	19,102		23,401	
Innovative Education Program Strategies (Title V)	C2S1-05	84.298	17,075		15,757	
Technology Literacy Quality State Grants (Title II-D)	TJS1-04/05	84.318	4,449		20,673	
English Language Acquisition Grants (Title III)	T3S1-04/05	84.365	5,932		13,504	
Improving Teacher Quality State Grants (Title II-A)	TRS1-04/05	84.367	193,383		238,843	
<i>Direct from U.S. Department of Education:</i>						
Telecom (E-Rate)		84.XXX	69,936		3,280	
<b>Total U.S. Department of Education</b>			<b>2,089,792</b>		<b>2,132,439</b>	
<b><u>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u></b>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program (SCHIP)		93.767	7,604		7,650	
Medical Assistance Payments - Title XIX (Community Alternative Funding System)		93.778	149,724		77,163	
<b>Total U.S. Department of Health &amp; Human Services</b>			<b>157,328</b>		<b>84,813</b>	
<b>Totals</b>			<b>\$2,596,467</b>	<b>\$24,086</b>	<b>\$2,566,599</b>	<b>\$24,086</b>

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

**KENT CITY SCHOOL DISTRICT  
PORTAGE COUNTY**

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

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**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**

Kent City School District  
Portage County  
321 North Depeyster Street  
Kent, Ohio 44240

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kent City School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2006 wherein the District implemented Governmental Accounting Standards Board Statement Technical Bulletin No. 2004-2 and restated fund balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion 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 to be material weaknesses.

In a separate letter to the District's management dated March 22, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the 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 have a directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Kent City School District  
Portage County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 22, 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**

Kent City School District  
Portage County  
321 North Depeyster Street  
Kent, Ohio 44240

To the Board of Education:

#### **Compliance**

We have audited the compliance of Kent City School District (the 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 identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### **Internal Control Over Compliance**

The 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 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

**Betty Montgomery**  
Auditor of State

March 22, 2006

**KENT CITY SCHOOL DISTRICT  
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
FOR THE YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster - CFDA #84.027 and #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**KENT CITY SCHOOL DISTRICT**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 4, 2006**