



**Auditor of State  
Betty Montgomery**



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, (the "School District"), as of and for the year ended June 30, 2002, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, as of June 30, 2002, and the respective changes in financial position thereof and the respective 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 discussed in Note 3, during 2002, the School District reclassified the Food Service Fund from a business type activity to a governmental activity.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2003 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The federal awards expenditures schedule 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 14, 2003

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED**

The discussion and analysis of Kenton City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2002 are as follows:

In total, net assets increased \$854 thousand. Intergovernmental revenues represented the largest amount of this increase that was primarily due to adjustments in funding factors for foundation money established in House Bill 94 and an increase in the base cost per pupil. The increase in future fiscal years will not be as large. An increase was also seen in property tax revenue, primarily a result of property taxes available as an advance at the end of the fiscal year being larger than in the previous fiscal year.

General revenues accounted for \$13,789 thousand, or 84 percent of all revenues, and reflect the School District's significant dependence on property taxes and unrestricted state entitlements.

**Using the Basic Financial Statements**

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

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

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

**Reporting the School District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2002. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

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

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

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

**Fund Financial Statements**

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

**Governmental Funds**

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

**Fiduciary Funds**

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



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2002 compared to fiscal year 2001:

Table 1  
Net Assets  
(In Thousands)

	Governmental Activities	
	2002	2001
<u>Assets:</u>		
Current and Other Assets	\$10,627	\$10,168
Capital Assets, Net	3,168	3,095
Total Assets	13,795	13,263
<u>Liabilities:</u>		
Current and Other Liabilities	5,539	5,754
Long-Term Liabilities	918	1,025
Total Liabilities	6,457	6,779
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,084	2,930
Restricted	390	391
Unrestricted	3,864	3,163
Total Net Assets	\$7,338	\$6,484

Total assets increased \$532 thousand. The increase is primarily due to increases in equity in pooled cash and cash equivalents of \$494 thousand, property taxes receivable of \$122 thousand, and depreciable capital assets of \$73 thousand.

The total liabilities decrease of \$322 thousand is primarily due to a decrease in deferred revenue. More property tax monies were available to the School District at the end of the fiscal year than at the end of the prior fiscal year; therefore, less was deferred.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2002.

Table 2  
Change in Net Assets  
(In Thousands)

	Governmental Activities	
	2002	2001
<b>Revenues:</b>		
Program Revenues:		
Charges for Services and Sales	\$652	\$701
Operating Grants, Contributions, and Interest	1,729	1,800
Capital Grants and Contributions	92	69
Total Program Revenues	<u>2,473</u>	<u>2,570</u>
General Revenues:		
Property Taxes	4,810	4,323
Income Taxes	1,525	1,633
Grants and Entitlements	7,249	6,348
Interest	170	312
Miscellaneous	35	70
Total General Revenues	<u>13,789</u>	<u>12,686</u>
Total Revenues	<u>16,262</u>	<u>15,256</u>
<b>Program Expenses:</b>		
Instruction	9,738	9,165
Support Services:		
Pupils	511	594
Instructional Staff	563	484
Board of Education	27	32
Administration	1,348	1,226
Fiscal	413	421
Operation and Maintenance of Plant	1,340	1,400
Pupil Transportation	566	508
Central	40	43
Non-Instructional Services	703	676
Extracurricular Activities	153	185
Interest and Fiscal Charges	6	10
Total Expenses	<u>15,408</u>	<u>14,744</u>
Increase in Net Assets	<u>\$854</u>	<u>\$512</u>

Program revenues account for 15 percent of total revenues and are primarily represented by restricted intergovernmental revenues; charges for tuition, fees, and extracurricular activities; and food service sales.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

The major program expenses for governmental activities are for instruction, which accounts for 63 percent of all governmental expenses. Other programs which support the instruction process, including pupils and instructional staff and pupil transportation account for 11 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 9 percent. Therefore, over 83 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

**Governmental Activities**

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

Table 3  
Governmental Activities  
(In Thousands)

	Total Cost of Services		Net Cost of Services	
	2002	2001	2002	2001
Instruction	\$9,738	\$9,165	\$8,230	\$7,933
Support Services:				
Pupils	511	594	497	396
Instructional Staff	563	484	563	301
Board of Education	27	32	27	32
Administration	1,348	1,226	1,348	1,183
Fiscal	413	421	413	421
Operation and Maintenance of Plant	1,340	1,400	1,340	1,392
Pupil Transportation	566	508	543	443
Central	40	43	33	43
Non-Instructional Services	703	676	39	20
Extracurricular Activities	153	185	(104)	0
Interest and Fiscal Charges	6	10	6	10
<b>Total Expenses</b>	<b>\$15,408</b>	<b>\$14,744</b>	<b>\$12,935</b>	<b>\$12,174</b>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 84 percent of instruction activities are supported through taxes and other general revenues. Extracurricular activities had program revenues in excess of expenses of \$104 thousand for the fiscal year. This is primarily due to ticket sales for extracurricular activity events, reserved seating sales, and program advertising. For all governmental activities, support from general revenues is 84 percent. It is apparent that the community, as a whole, is the primary support for Kenton City School District students.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$16,319 thousand and expenditures \$15,612 thousand. The net positive change of \$707 thousand in fund balance for the year indicates that the School District is able to meet current costs.

**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 the course of fiscal year 2002, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$13,890 thousand, were above original budgeted revenues, in the amount of \$13,421 thousand. Of this \$469 thousand difference, most was due to conservative estimates in revenues for state foundation, parity aid, and open enrollment.

Final expenditures were budgeted at \$15,057 thousand while actual expenditures were \$13,735 thousand. The \$1,322 thousand difference primarily is seen in regular instruction, fiscal, operation and maintenance of plant, and pupil transportation expenditures. The major difference comes from budgeting salaries at the full cost of current contracts through August, but actual expenditures are through June. Also, the School District anticipated an increase in insurance premiums during the fiscal year that did not occur and experienced savings in their worker's compensation premium for the fiscal year. The School District anticipated equipment and software changes for fiscal that did not occur and utility costs were lower than previous fiscal year. A new van and school bus were budgeted for that did not occur until early fiscal year 2003.

Actual General Fund revenues were more than expenditures by \$224 thousand. The difference can largely be attributed to an increase in intergovernmental revenue for the fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2002, the School District had \$3,168 thousand invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$73 thousand, or 2 percent.

The primary increase in capital assets for governmental activities was the result of additions exceeding disposals and annual depreciation for the fiscal year. Additions included routine computer and computer related purchases, maintenance equipment, roof improvements, a water line, and two trailers. The disposal was a scoreboard.

For further information regarding the School District's capital assets see Note 11 to the basic financial statements.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
UNAUDITED  
(Continued)**

**Debt**

At June 30, 2002, the School District had \$84 thousand in outstanding energy conservation notes for a project that originated in 1993. The notes are being paid from General Fund transfers to the debt service fund. The final payment on this debt will be made in fiscal year 2003.

At June 30, 2002, the School District's overall legal debt margin was \$17,114,076 with an unvoted debt margin of \$190,156.

For further information regarding the School District's debt see Note 16 to the basic financial statements.

**Current Issues**

Kenton City School District is in the last year of increasing revenues with a declining economy and nothing finalized with State funding. In previous fiscal years, the School District's leading employer, Meritor, has consistently reduced its labor force from above five hundred to a little over one hundred. Another School District employer, Durez Occidental Chemical Corporation, has also reduced their staff by approximately 65 percent since fiscal year 2000. Even with a declining economy, student enrollment is remaining stable meaning families have made a commitment to remain in the area. The School District expects a decline in income tax collections and in tangible personal property values during future fiscal years. This decrease will not only be in revenues but also eliminate the inflationary growth which helps cover increasing expenses. The challenge for the School District Administration and Board of Education is to provide quality education with fewer monies available to spend.

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF NET ASSETS  
June 30, 2002**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$5,537,381
Accounts Receivable	15,548
Accrued Interest Receivable	3,396
Intergovernmental Receivable	52,952
Income Taxes Receivable	593,423
Prepaid Items	32,457
Inventory Held for Resale	9,235
Materials and Supplies Inventory	2,879
Property Taxes Receivable	4,380,237
Nondepreciable Capital Assets	638,639
Depreciable Capital Assets, Net	2,529,131
Total Assets	<u>13,795,278</u>
<b>Liabilities:</b>	
Accounts Payable	130,335
Accrued Wages and Benefits Payable	1,411,968
Intergovernmental Payable	408,395
Matured Compensated Absences Payable	21,247
Accrued Interest Payable	340
Deferred Revenue	3,566,108
Long-Term Liabilities:	
Due Within One Year	126,761
Due in More Than One Year	791,556
Total Liabilities	<u>6,456,710</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	3,083,770
Restricted For:	
Set Asides	68,364
Capital Projects	14,481
Other Purposes	307,657
Unrestricted	3,864,296
Total Net Assets	<u><u>\$7,338,568</u></u>

*See Accompanying Notes to Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$7,724,860	\$53,492	\$293,704	\$88,363	(\$7,289,301)
Special	1,718,814		1,021,334		(697,480)
Vocational	294,233		51,231		(243,002)
Support Services:					
Pupils	511,020		9,822	3,500	(497,698)
Instructional Staff	563,049				(563,049)
Board of Education	26,792				(26,792)
Administration	1,348,249				(1,348,249)
Fiscal	413,604				(413,604)
Operation and Maintenance of Plant	1,339,752				(1,339,752)
Pupil Transportation	565,750	6,792	16,125		(542,833)
Central	40,527		7,592		(32,935)
Non-Instructional Services	703,270	359,902	303,811		(39,557)
Extracurricular Activities	152,815	231,725	25,404		104,314
Interest and Fiscal Charges	5,711				(5,711)
Total Governmental Activities	<u>\$15,408,446</u>	<u>\$651,911</u>	<u>\$1,729,023</u>	<u>\$91,863</u>	<u>(12,935,649)</u>

**General Revenues:**

Property Taxes Levied for General Purposes	4,809,960
Income Taxes	1,525,198
Grants and Entitlements not Restricted to Specific Programs	7,249,574
Interest	170,404
Miscellaneous	34,645
Total General Revenues	<u>13,789,781</u>

Change in Net Assets 854,132

Net Assets Beginning of Year - Restated (Note 3) 6,484,436  
Net Assets End of Year \$7,338,568

See Accompanying Notes to the Basic Financial Statements

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2002**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,950,985	\$467,437	\$5,418,422
Accounts Receivable	4,940	10,608	15,548
Accrued Interest Receivable	3,385	11	3,396
Intergovernmental Receivable	7,510	45,442	52,952
Income Taxes Receivable	593,423		593,423
Prepaid Items	30,758	1,699	32,457
Inventory Held for Resale		9,235	9,235
Materials and Supplies Inventory		2,879	2,879
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	118,959		118,959
Property Taxes Receivable	4,380,237		4,380,237
<b>Total Assets</b>	<b>\$10,090,197</b>	<b>\$537,311</b>	<b>\$10,627,508</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities</b>			
Accounts Payable	\$60,556	\$69,779	\$130,335
Accrued Wages and Benefits Payable	1,284,359	127,609	1,411,968
Intergovernmental Payable	282,560	15,953	298,513
Matured Compensated Absences Payable	21,247		21,247
Deferred Revenue	3,685,726	1,694	3,687,420
<b>Total Liabilities</b>	<b>5,334,448</b>	<b>215,035</b>	<b>5,549,483</b>
<b>Fund Balances:</b>			
Reserved for Property Taxes	767,863		767,863
Reserved for Budget Stabilization	68,364		68,364
Reserved for Bus Purchase	50,595		50,595
Reserved for Encumbrances	204,239	39,671	243,910
Unreserved, Reported in:			
General Fund	3,664,688		3,664,688
Special Revenue Funds		268,100	268,100
Debt Service Fund		24	24
Capital Projects Funds		14,481	14,481
<b>Total Fund Balances</b>	<b>4,755,749</b>	<b>322,276</b>	<b>5,078,025</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$10,090,197</b>	<b>\$537,311</b>	<b>\$10,627,508</b>

*See Accompanying Notes to the Basic Financial Statements.*



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2002**

Total Governmental Fund Balances	\$5,078,025
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	3,167,770
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	2,110	
Accrued Interest Receivable	11	
Intergovernmental Receivable	1,683	
Income Taxes Receivable	71,242	
Property Taxes Receivable	46,266	
		121,312

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.	(109,882)
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Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:

Accrued Interest Payable	(340)	
Compensated Absences Payable	(834,317)	
Energy Conservation Loan Payable	(84,000)	
		(918,657)

Net Assets of Governmental Activities	\$7,338,568
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See Accompanying Notes to the Basic Financial Statements

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30 , 2002**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Property Taxes	\$4,802,787		\$4,802,787
Income Taxes	1,556,659		1,556,659
Intergovernmental	7,720,613	1,317,742	9,038,355
Interest	170,404	655	171,059
Tuition and Fees	92,732	7,196	99,928
Extracurricular Activities		238,937	238,937
Charges for Services		359,700	359,700
Gifts and Donations		2,248	2,248
Miscellaneous	34,759	14,433	49,192
Total Revenues	14,377,954	1,940,911	16,318,865
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	7,251,962	235,157	7,487,119
Special	1,239,027	496,947	1,735,974
Vocational	303,411		303,411
Support Services:			
Pupils	512,133	52,640	564,773
Instructional Staff	349,254	199,755	549,009
Board of Education	26,792		26,792
Administration	1,309,686	39,521	1,349,207
Fiscal	423,426		423,426
Operation and Maintenance of Plant	1,575,460	1,301	1,576,761
Pupil Transportation	510,647		510,647
Central	32,385	8,142	40,527
Non-Instructional Services		698,746	698,746
Extracurricular Activities		194,047	194,047
Capital Outlay		64,258	64,258
Debt Service:			
Principal Retirement		81,000	81,000
Interest and Fiscal Charges		6,038	6,038
Total Expenditures	13,534,183	2,077,552	15,611,735
Excess of Revenues Over (Under) Expenditures	843,771	(136,641)	707,130
<b>Other Financing Sources (Uses):</b>			
Transfers In		157,875	157,875
Transfers Out	(157,875)		(157,875)
Total Other Financing Sources (Uses)	(157,875)	157,875	
Net Change in Fund Balances	685,896	21,234	707,130
Fund Balances at Beginning of Year - Restated (Note 3)	4,069,853	301,042	4,370,895
Fund Balances at End of Year	\$4,755,749	\$322,276	\$5,078,025

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Net Change in Fund Balances - Total Governmental Funds \$707,130

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

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

Capital Outlay	442,806	
Depreciation	(370,264)	
		72,542

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

Property Taxes	7,173	
Income Taxes	(31,461)	
Intergovernmental	581	
Interest	(18)	
Tuition and Fees	1,137	
Miscellaneous	(114)	
		(22,702)

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

81,000

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

Intergovernmental Payable	(9,433)	
Accrued Interest Payable	327	
Compensated Absences Payable	25,268	
		16,162

Change in Net Assets of Governmental Activities

\$854,132

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30 , 2002**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$4,200,000	\$4,400,000	\$4,344,339	(\$55,661)
Income Taxes	1,650,000	1,580,000	1,588,272	8,272
Intergovernmental	7,173,486	7,610,586	7,721,473	110,887
Interest	250,000	165,000	172,742	7,742
Tuition and Fees	124,100	97,940	104,980	7,040
Miscellaneous	23,000	36,000	27,607	(8,393)
<b>Total Revenues</b>	<u>13,420,586</u>	<u>13,889,526</u>	<u>13,959,413</u>	<u>69,887</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	7,750,964	7,667,714	7,278,672	389,042
Special	1,295,327	1,283,639	1,216,244	67,395
Vocational	305,794	326,979	310,646	16,333
Support Services:				
Pupils	500,408	525,599	519,974	5,625
Instructional Staff	367,920	392,650	338,633	54,017
Board of Education	37,810	39,810	29,052	10,758
Administration	1,351,628	1,375,304	1,302,985	72,319
Fiscal	531,939	531,979	429,222	102,757
Operation and Maintenance of Plant	2,102,482	2,150,210	1,772,911	377,299
Pupil Transportation	683,715	683,341	504,961	178,380
Central	60,000	80,000	32,099	47,901
<b>Total Expenditures</b>	<u>14,987,987</u>	<u>15,057,225</u>	<u>13,735,399</u>	<u>1,321,826</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,567,401)</u>	<u>(1,167,699)</u>	<u>224,014</u>	<u>1,391,713</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	1,000	18,400	18,417	17
Other Financing Sources	1,000	1,000	0	(1,000)
Advances In	100,000	122,200	122,200	0
Advances Out	(100,000)	(107,600)	(107,600)	0
Transfers Out	(100,000)	(196,600)	(157,875)	38,725
<b>Total Other Financing Sources (Uses)</b>	<u>(98,000)</u>	<u>(162,600)</u>	<u>(124,858)</u>	<u>37,742</u>
<b>Net Change in Fund Balance</b>	<u>(1,665,401)</u>	<u>(1,330,299)</u>	<u>99,156</u>	<u>1,429,455</u>
Fund Balance at Beginning of Year	4,333,700	4,333,700	4,333,700	0
Prior Year Encumbrances Appropriated	384,221	384,221	384,221	0
<b>Fund Balance at End of Year</b>	<u>\$3,052,520</u>	<u>\$3,387,622</u>	<u>\$4,817,077</u>	<u>\$1,429,455</u>

See Accompanying Notes to the Basic Financial Statements.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2002**

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$12	\$26,167
<b>Liabilities:</b>		
Due to Students	0	26,167
<b>Net Assets:</b>		
Held in Trust for Students	<u>\$12</u>	

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

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

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	\$0
<b>Deductions:</b>	
Non-Instructional Services	<u>0</u>
Change in Net Assets	0
Net Assets at Beginning of Year	<u>12</u>
Net Assets at End of Year	<u><u>\$12</u></u>

*See Accompanying Notes to the Basic Financial Statements.*

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1888. The School District serves an area of approximately one hundred twelve square miles. It is located in Hardin and Wyandot Counties and includes all of Pleasant Township, portions of Buck, Cessna, Dudley, Goshen, Lynn, McDonald, and Taylor Creek Townships, and the City of Kenton. The School District is the 261st largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by ninety-four classified employees, one hundred fifty-nine certified teaching personnel, and ten administrative employees who provide services to 2,164 students and other community members. The School District currently operates eleven instructional/support buildings.

**A. Reporting Entity**

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**A. Basis of Presentation**

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

**1. Government-Wide Financial Statements**

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

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

**2. Fund Financial Statements**

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

**B. Fund Accounting**

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

**1. Governmental Funds**

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's only major fund is the General Fund.



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**\_2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. General Fund**

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

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

**3. Fiduciary Funds**

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

**C. Measurement Focus**

**1. Government-Wide Financial Statements**

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

**2. Fund Financial Statements**

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Nonexchange Transactions**

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

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

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

**2. Deferred Revenues**

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

Property taxes for which there was an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**3. Expenses/Expenditures**

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

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

**E. Budgetary Process**

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

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

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

**F. Cash and Investments**

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

During fiscal year 2002, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 was \$170,404, which includes \$9,714 assigned from other School District funds.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at the lower of cost or market. Cost is determined on a first-in, first-out basis and is expensed when used on the government-wide financial statements, or recorded as an expenditure when used on the fund financial statements. Inventory consists of donated and purchased food.

**I. Restricted Assets**

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

**J. Capital Assets**

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

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

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**K. Compensated Absences**

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

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

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

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

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

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

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

**M. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**N. Net Assets**

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

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

**O. Fund Balance Reserves**

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

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

**Q. 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.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**3. RESTATEMENT OF FUND BALANCE**

For fiscal year 2002, the Food Service Fund is reported as a nonmajor Special Revenue Fund. In prior years, this fund was reported as an Enterprise Fund. This reclassification had the following affect on June 30, 2001 financial statements: An increase of \$66,346 in "Net Assets" (Governmental Activities) on the Statement of Net Assets from \$6,418,090 to \$6,484,436, an increase of \$23,926 to the "Change in Net Assets" (Governmental Activities) on the Statement of Activities from \$487,676 to \$511,602, an increase of \$66,346 in the "Fund Balance at End of Year" (Other Governmental Funds) on the Balance Sheet from \$274,532 to \$340,878, and an increase of \$26,510 in the "Net Change in Fund Balances" (Other Governmental Funds) on the Statement of Revenues, Expenditures, and Changes in Fund Balances (Governmental Funds) from \$(23,624) to \$2,886. The School District reclassified this fund since it has not been self – supporting for the past several years.

**4. ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At June 30, 2002, the Title VI-B special revenue fund had a deficit fund balance, in the amount of \$8,572, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**B. Compliance**

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2002.

<u>Fund Type/Fund/Function/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund			
Special Instruction/Capital Outlay	\$500	\$642	\$142
Special Instruction/Other	192,000	213,716	21,716
Pupils/Capital Outlay	44,268	53,842	9,574
Special Revenue Fund			
Ohio Reads			
Regular Instruction/Personal Services	55,000	61,195	6,195
Capital Projects Fund			
SchoolNet Plus			
Refund of Prior Year Receipts	0	24,000	24,000

The Board of Education is monitoring their budgetary controls to avoid future violations of budgetary compliance.

**5. 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 is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

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

<b>Net Change in Fund Balance</b>	
GAAP Basis	\$685,896
<b>Increase (Decrease) Due To:</b>	
Revenue Accruals:	
Accrued FY 2001, Received in Cash FY 2002	896,717
Accrued FY 2002, Not Yet Received in Cash	(1,303,769)
Expenditure Accruals:	
Accrued FY 2001, Paid in Cash FY 2002	(1,590,893)
Accrued FY 2002, Not Yet Paid in Cash	1,648,722
Prepaid Items	(6,178)
Loans Receivable Repayment	6,928
Advances In	122,200
Advances Out	(107,600)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(252,867)</u>
Budget Basis	<u><u>\$99,156</u></u>

**6. DEPOSITS AND INVESTMENTS**

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

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

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



**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

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

At fiscal year end, the School District had \$166,880 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

At fiscal year end, the carrying amount of the School District's deposits was \$5,396,680 and the bank balance was \$5,684,274. Of the bank balance, \$100,000 was covered by federal depository insurance and \$5,584,274 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**7. RECEIVABLES**

Receivables at June 30, 2002, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	<u>\$7,510</u>
Other Governmental Funds	
Eisenhower	191
Title VI-B	1,440
Title I	41,842
Title VI	1,917
Title VI-R	<u>52</u>
Total Other Governmental Funds	<u>45,442</u>
Total Intergovernmental Receivables	<u>\$52,952</u>

**8. LOANS RECEIVABLE**

During fiscal year 1996, the Board of Education made a loan to the Band Boosters, in the amount of \$24,273, and in fiscal year 2000, the Board of Education made an additional loan to the Band Boosters, in the amount of \$10,000. These were interest free loans with annual principal payments of \$5,000. During fiscal year 2002, the balance of \$6,928 was paid in full.

**9. INCOME TAXES**

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2002 represent the collection of calendar year 2001 taxes. Real property taxes received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of January 1, 2001, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of December 31, 2000, the lien date. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2002 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes received in calendar year 2002 were levied after April 1, 2001, on the value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2002, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at fiscal year end. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$767,863 in the General Fund. The amount available as an advance at June 30, 2001, was \$309,415 in the General Fund.

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

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2002 taxes were collected are:

	<b>2001 Second- Half Collections</b>		<b>2002 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$96,858,690	51.92%	\$97,959,610	51.51%
Industrial/Commercial	33,525,330	17.97	34,503,900	18.15
Public Utility	10,711,700	5.74	8,835,590	4.65
Tangible Personal	45,462,083	24.37	48,857,296	25.69
Total Assessed Value	<u>\$186,557,803</u>	<u>100.00%</u>	<u>\$190,156,396</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.20		\$34.20	

**11. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	<b>Balance at 6/30/01</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/02</b>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$638,639	\$0	\$0	\$638,639
Depreciable Capital Assets				
Land Improvements	490,226	62,096	0	552,322
Buildings and Building Improvements	3,145,190	178,895	0	3,324,085
Furniture and Fixtures	1,712,017	167,445	(1,000)	1,878,462
Equipment	120,237	7,000	0	127,237
Vehicles	866,269	11,520	0	877,789
Infrastructure	0	15,850	0	15,850
Total Depreciable Capital Assets	<u>6,333,939</u>	<u>442,806</u>	<u>(1,000)</u>	<u>6,775,745</u>
Total Capital Assets at Historical Cost	<u>6,972,578</u>	<u>442,806</u>	<u>(1,000)</u>	<u>7,414,384</u>
Less Accumulated Depreciation				
Land Improvements	(263,478)	(13,847)	0	(277,325)
Buildings and Building Improvements	(2,034,902)	(92,842)	0	(2,127,744)
Furniture and Fixtures	(1,019,382)	(201,732)	1,000	(1,220,114)
Equipment	(59,121)	(8,690)	0	(67,811)
Vehicles	(500,467)	(53,109)	0	(553,576)
Infrastructure	0	(44)	0	(44)
Total Accumulated Depreciation	<u>(3,877,350)</u>	<u>(370,264)</u>	<u>1,000</u>	<u>(4,246,614)</u>
Depreciable Capital Assets, Net	<u>2,456,589</u>	<u>72,542</u>	<u>0</u>	<u>2,529,131</u>
Governmental Activities Capital Assets, Net	<u>\$3,095,228</u>	<u>\$72,542</u>	<u>\$0</u>	<u>\$3,167,770</u>

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$220,191
Special	4,116
Vocational	2,786
Support Services:	
Pupils	10,257
Instructional Staff	15,664
Administration	7,070
Fiscal	6,788
Operation and Maintenance of Plant	46,091
Pupil Transportation	53,650
Non-Instructional Services	618
Extracurricular Activities	3,033
Total Depreciation Expense	<u><u>\$370,264</u></u>

**12. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted for the following insurance coverage.

Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000

Coverage provided by Nationwide Insurance is as follows:

Building and Contents	40,623,600
Boiler and Machinery	19,539,600
Inland Marine Coverage	
Hardware and Software	500,000
Audio Visual Equipment	787,832
Music Instruments	446,491
Automobile Liability	2,000,000
Uninsured Motorists	2,000,000

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

For fiscal year 2002, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**12. RISK MANAGEMENT (Continued)**

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

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

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

**13. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$709,109, \$681,217, and \$401,138, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$118,598, is recorded as a liability.

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**B. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$96,259, \$67,873, and \$85,389, respectively; 53 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$45,345, is recorded as a liability.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2002, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$335,894.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 billion at June 30, 2002. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

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

**14. POSTEMPLOYMENT BENEFITS (Continued)**

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$170,611 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**15. EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Health Care Benefits**

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



**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**16. LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/02</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
Energy Conservation Notes					
FY 1994 4.85%	\$165,000	\$0	\$81,000	84,000	84,000
Compensated Absences Payable	859,585	7,895	33,163	834,317	42,761
Total Governmental Activities					
Long-Term Obligations	<u>\$1,024,585</u>	<u>\$7,895</u>	<u>\$114,163</u>	<u>\$918,317</u>	<u>\$126,761</u>

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

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

The School District's overall debt margin was \$17,114,076 with an unvoted debt margin of \$190,156 at June 30, 2002.

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2002, were \$84,000 and \$2,037, respectively.

**17. SET ASIDES**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2002.

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**17. SET ASIDES (Continued)**

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2001	\$0	\$0	\$68,364
Current Year Set Aside Requirement	260,861	260,861	0
Qualifying Expenditures	(611,552)	(260,861)	0
Balance Carried Forward to Fiscal Year 2003	(\$350,691)	\$0	\$68,364
Set Aside Reserve Balance June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$68,364</u>

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

**18. INTERFUND TRANSFERS**

During fiscal year 2002, the General Fund made transfers to other governmental funds, in the amount of \$157,875, to move receipts to the debt service fund as debt payments became due and to subsidize various programs in other funds.

**19. JOINTLY GOVERNED ORGANIZATIONS**

**A. Ohio Hi-Point Joint Vocational School**

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

**B. West Central Regional Professional Development Center**

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

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

**KENTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

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

**20. INSURANCE POOLS**

**A. Ohio School Plan**

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

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

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

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

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

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**20. INSURANCE POOLS (Continued)**

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

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

**21. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

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

**22. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

**B. Litigation**

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

KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$51,396		\$63,610
School Breakfast Program	05-PU 01	10.553	7,000		7,000	
	05-PU 02		29,900		29,900	
Total School Breakfast Program			36,900		36,900	
National School Lunch Program	LL-P1 01	10.555	14,151		14,151	
	LL-P4 01		28,108		28,108	
	LL-P4 02		165,991		165,991	
Total National School Lunch Program			208,250		208,250	
Total U.S. Department of Agriculture - Nutrition Cluster			245,150	51,396	245,150	63,610
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>(Passed through Ohio Department of Education)</i>						
Title I, Part A, ESEA	C1-S1 01	84.010	83,752		121,270	
	C1-S1 02		471,398		383,738	
Total Title I			555,150		505,008	
Special Education Grants to States (IDEA Part B)	6B-EC 01P	84.027	4,033		4,033	
	6B-SF 01P		17,053		12,500	
	6B-SF 02P		171,585		165,170	
Total Special Education Grants to States			192,671		181,703	
Safe and Drug Free Schools	DR-S1 02	84.186	8,205		8,205	
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-SP 01	84.276	2,500		2,486	
Eisenhower Professional Development State Grants (Title II, Part B)	MS-S1 00	84.281			81	
	MS-S1 01		1,126		6,833	
	MS-S1 02		13,965		7,363	
Total Eisenhower Professional Development State Grants			15,091		14,277	
Innovative Education Program Strategies, Title VI	C2-S1 01	84.298	1,077		1,077	
	C2-S1 02		8,896		8,896	
Total Innovative Education Program, Title VI			9,973		9,973	
Technology Literacy Challenge Fund Grants	TF-42	84.318			20,347	
Class Size Reduction	CR-S1 01	84.340	3,155		12,290	
	CR-S1 02		80,749		62,041	
Total Class Size Reduction			83,904		74,331	
School Renovations, Idea, and Technology	AT-S1 02	84.352A	405		405	
Total U.S. Department of Education			867,899	51,396	816,735	
<b>Total Federal Assistance</b>			<b>\$1,113,049</b>	<b>\$51,396</b>	<b>\$1,061,885</b>	<b>\$63,610</b>

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

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - BASIS OF ACCOUNTING**

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

**NOTE C - REIMBURSEMENT GRANTS**

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

**NOTE D - FOOD DISTRIBUTION PROGRAM**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule of Federal Awards Expenditures at the fair market value of the commodities received and consumed. At June 30, 2002, the District had \$6,542 of food commodities in inventory.



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Kenton City School District, Hardin County (the "School District"), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 14, 2003, wherein we noted that the School District reclassified the Food Service Fund from a business type activity to a governmental activity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted instances of noncompliance that we have reported to management of the School District in a separate letter dated March 14, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the School District in a separate letter dated March 14, 2003.

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

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

**Betty Montgomery**  
Auditor of State

March 14, 2003





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Kenton City School District, Hardin County (the "School District"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

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



**Betty Montgomery**  
Auditor of State

March 14, 2003

**KENTON CITY SCHOOL DISTRICT  
HARDIN COUNTY**

**SCHEDULE OF FINDINGS  
FISCAL YEAR ENDED JUNE 30, 2002  
OMB CIRCULAR A -133 §.505**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title 1: CFDA # 84.010 Nutrition Cluster: CFDA #'s 10.550, 10.553, & 10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

None

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

None





**Auditor of State  
Betty Montgomery**

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**KENTON CITY SCHOOL DISTRICT**

**HARDIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 3, 2003**