



**Auditor of State
Betty Montgomery**

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government–Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund	18
Statement of Fund Net Assets – Internal Service Fund	19
Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Fund.....	20
Statement of Cash Flows – Internal Service Fund	21
Statement of Fiduciary Net Assets – Fiduciary Funds.....	22
Notes to the Basic Financial Statements.....	23
Schedule of Receipts and Expenditures of Federal Awards	47
Notes to the Schedule of Receipts and Expenditures of Federal Awards	48
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	49
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	51
Schedule of Findings	53

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards 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 receipts and expenditures of federal awards 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

April 5, 2005

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Kent City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased by \$10,604,788 from 2003.
- General revenues accounted for \$37,026,788 in revenue or 85.6 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$6,255,538 or 14.5 percent of total revenues of \$43,282,326.
- The School District had \$53,887,114 in expenses related to governmental activities; only \$6,255,538 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$37,026,788 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$6,299,288, a decrease of \$1,535,978 from the prior fiscal year.

Using this Annual Financial Report

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

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

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
<i>Current and other assets</i>	\$ 34,617,444	\$ 33,591,889
<i>Capital assets, net of depreciation</i>	<u>28,977,192</u>	<u>30,527,761</u>
<i>Total assets</i>	<u>63,594,636</u>	<u>64,119,650</u>
Liabilities		
<i>Current and other liabilities</i>	25,481,791	27,654,472
<i>Long-term liabilities</i>	<u>35,701,145</u>	<u>21,623,449</u>
<i>Total liabilities</i>	<u>61,182,936</u>	<u>49,277,921</u>
Net Assets		
<i>Invested in capital assets, net of related debt</i>	9,295,451	10,492,312
<i>Restricted</i>	1,378,076	902,408
<i>Unrestricted</i>	<u>(8,261,827)</u>	<u>3,447,009</u>
<i>Total net assets</i>	<u>\$ 2,411,700</u>	<u>\$ 14,841,729</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School District's assets exceeded liabilities by \$2,411,700. However, net assets decreased by \$12,430,029 since June 30, 2003.

Capital assets reported on the government-wide statements represent the second largest portion of the School District's net assets for fiscal year 2004. Capital assets include land, buildings, furniture, fixtures, and equipment, and vehicles, and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$1,378,076 or 57.1 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$647,167, or 46.9 percent, is restricted for debt service payments; \$376,998, or 27.4 percent, is restricted for capital projects; and \$353,911, or 25.7 percent, is restricted for other purposes. The remaining balance of government-wide unrestricted net assets is (\$8,261,827). A deficit remains due to the School District's requirement to issue debt for the Kent Free Library. If this requirement did not exist, unrestricted net assets would be \$5,289,030 and could be used to meet the government's ongoing obligations to students and staff.

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows change in net assets for fiscal years 2003 and 2004.

Table 2
Changes in Net Assets

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
Revenues		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 3,227,375	\$ 1,919,163
<i>Operating grants, contributions and interest</i>	3,009,629	2,775,386
<i>Capital grants and contributions</i>	18,534	1,343
<i>General revenues:</i>		
<i>Property taxes</i>	22,196,314	19,250,595
<i>Grants and entitlements</i>	14,669,240	14,916,738
<i>Investment earnings</i>	134,247	178,018
<i>Miscellaneous</i>	26,987	509,817
<i>Total revenues</i>	<u>43,282,326</u>	<u>39,551,060</u>
Program Expenses		
<i>Instruction:</i>		
<i>Regular</i>	16,092,306	15,872,723
<i>Special</i>	4,047,772	4,460,486
<i>Vocational</i>	1,906,438	1,367,697
<i>Adult/continuing</i>	114,447	72,182
<i>Other</i>	418,955	294,336
<i>Support services:</i>		
<i>Pupils</i>	1,907,199	1,963,707
<i>Instructional staff</i>	2,808,513	2,958,414
<i>Board of education</i>	185,137	257,653
<i>Administration</i>	2,589,325	2,580,463
<i>Fiscal</i>	831,799	788,464
<i>Business</i>	374,864	424,252
<i>Operation and maintenance of plant</i>	3,545,063	3,477,151
<i>Pupil transportation</i>	1,324,575	1,375,613
<i>Central</i>	307,345	299,012
<i>Operation of non-instructional services:</i>		
<i>Food service operations</i>	971,347	1,025,465
<i>Community services</i>	418,418	616,538
<i>Extracurricular activities</i>	1,103,452	936,891
<i>Interest and fiscal charges</i>	1,437,627	1,165,122
<i>Intergovernmental</i>	13,502,532	-
<i>Total expenses</i>	<u>53,887,114</u>	<u>39,936,169</u>
<i>Change in net assets</i>	<u>(10,604,788)</u>	<u>(385,109)</u>
<i>Net assets at beginning of year</i>	<u>13,016,488</u>	<u>15,226,838</u>
<i>Net assets at end of year</i>	<u>\$ 2,411,700</u>	<u>\$ 14,841,729</u>

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$22.1 million in 2004. General revenues from grants and entitlements, such as the school foundation program, generated over \$14.6 million. With the combination of taxes and intergovernmental funding comprising approximately 85.2 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

A review of Table 2 shows that the total cost of instructional services was \$22,579,918, or 41.9% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instruction staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$4,715,712, or 8.7% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$3,981,125, or 7.4% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District buildings, grounds and equipment. Current year expenses of \$3,545,063 made up 6.6% of all governmental expenses.

For the 2004 fiscal year, the School District also reported intergovernmental expenses of \$13,502,532 as a component of governmental activities. This amount, representing 25.1% of all governmental activities expenses, is due to the accounting treatment of general obligation bonds issued on behalf of the Kent Free Library. Such expenses are not normally incurred in the general operation of the School District; however, they do not meet the criteria of an extraordinary item and therefore are reported as a governmental activity.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2003 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 3
Governmental Activities

	<i>Total Cost of Services <u>2004</u></i>	<i>Total Cost of Services <u>2003</u></i>	<i>Net Cost of Services <u>2004</u></i>	<i>Net Cost of Services <u>2003</u></i>
Program Expenses				
<i>Instruction:</i>				
<i>Regular</i>	\$ 16,092,306	\$ 15,872,723	\$ (14,441,740)	\$ (14,882,520)
<i>Special</i>	4,047,772	4,460,486	(3,015,051)	(3,376,379)
<i>Vocational</i>	1,906,438	1,367,697	(1,375,380)	(1,059,667)
<i>Adult/continuing</i>	114,447	72,182	(12,340)	(72,182)
<i>Other</i>	418,955	294,336	(418,955)	(294,336)
<i>Support services:</i>				
<i>Pupils</i>	1,907,199	1,963,707	(1,754,141)	(1,811,111)
<i>Instructional staff</i>	2,808,513	2,958,414	(1,932,996)	(2,422,289)
<i>Board of education</i>	185,137	257,653	(185,137)	(257,653)
<i>Administration</i>	2,589,325	2,580,463	(2,589,325)	(2,571,528)
<i>Fiscal</i>	831,799	788,464	(831,799)	(788,464)
<i>Business</i>	374,864	424,252	(327,586)	(424,252)
<i>Operation and maintenance of plant</i>	3,545,063	3,477,151	(3,470,258)	(3,477,151)
<i>Pupil transportation</i>	1,324,575	1,375,613	(1,300,802)	(1,328,512)
<i>Central</i>	307,345	299,012	(192,264)	(258,545)
<i>Operation non-instructional services:</i>				
<i>Food service operations</i>	971,347	1,025,465	31,150	(97,847)
<i>Community services</i>	418,418	616,538	(114,883)	-
<i>Extracurricular activities</i>	1,103,452	936,891	(762,442)	(695,429)
<i>Interest and fiscal charges</i>	1,437,627	1,165,122	(1,437,627)	(695,429)
<i>Intergovernmental</i>	13,502,532	-	(13,500,000)	(1,163,779)
<i>Total</i>	<u>\$ 53,887,114</u>	<u>\$ 39,936,169</u>	<u>\$ (47,631,576)</u>	<u>\$ (35,677,073)</u>

The dependence upon tax revenues for governmental activities is apparent with only 14% of governmental expenses supported by program revenues.

The School District's Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$70,280,078 and total expenditures and other financing uses were \$68,744,100. The total net change in fund balance across all governmental funds was an increase of \$1,535,978. Net increases in fund balance for the year were significant in the general and debt service funds, amounting to \$1,122,275 (30.4%) and \$325,252 (92.5%), respectively. These increases are largely attributable to significant increases in property tax revenue without similar increases in expenditures. Net increases across all other nonmajor governmental funds amounted to \$88,451, or 12.3%.

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

General Fund Budgeting Highlights

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

During fiscal year 2004, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$35,400,836, which was slightly higher than the original budget estimate of \$35,307,910. This difference of \$92,923, or .26%, is considered insignificant. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized.

The original expenditures and other financing uses estimate of \$35,468,391 was revised slightly over the fiscal year. Actual expenditures and other financing uses, however, were only \$35,254,124, \$214,267 less than originally anticipated. No significant expenditure budget revisions were posted to the general fund during the year. Even though the School District became aware of unexpected revenues, there was no intention of spending these additional revenues in any specific area.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$28,977,192 invested in capital assets. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003:

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

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
<i>Land</i>	\$ 1,456,613	\$ 1,456,613
<i>Construction in progress</i>	5,594	-
<i>Buildings and improvements</i>	25,227,545	25,954,877
<i>Furniture, fixtures and equipment</i>	1,455,274	1,716,842
<i>Vehicles</i>	<u>832,166</u>	<u>766,634</u>
<i>Total capital assets</i>	<u>\$ 28,977,192</u>	<u>\$ 29,894,966</u>

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The most significant capital expenditures by the School District during the year were related to the improvement of school buildings, including multiple roofing projects. The School District also purchased several vehicles during the year, including school buses. The total decrease in capital assets is due to depreciation expense of \$1,514,714 exceeding current year acquisitions of \$596,940, as well as the disposal of \$130,266 of vehicles. See Note 8 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2004 the School District had general obligation bonds outstanding of \$32,495,786, with \$1,161,000 due within one year. It also had capital lease obligations of \$873,576, with \$157,182 due within one year. The outstanding bond balance reflects a net increase of \$12,874,636 which is due to the addition of library bonds issued during fiscal year 2004. The School District has budgeted to meet all of its debt requirements, all which are to be repaid from the debt service fund.

At June 30, 2004, the School District's overall legal debt margin was \$43,391,483, with a voted debt margin of \$11,572,577 and an unvoted debt margin of \$482,128. See Note 14 to the basic financial statements for detail on the School District's debt activity and long-term obligations.

Current Issues Affecting Financial Condition

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

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

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

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

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the School District's Financial Management

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

Kent City School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 11,197,976
Cash and cash equivalents:	
In segregated accounts	47,508
Inventory held for resale	11,081
Materials and supplies inventory	63,969
Deferred charges	136,764
Receivables:	
Accounts	181,646
Intergovernmental	107,229
Accrued interest	6,947
Taxes	22,864,324
Capital assets:	
Land	1,462,207
Depreciable capital assets, net	27,514,985
Total capital assets	28,977,192
Total assets	63,594,636
 <u>Liabilities:</u>	
Accounts payable	181,739
Accrued wages	2,450,603
Compensated absences payable	19,634
Intergovernmental payable	1,227,152
Undistributed monies	1,457
Accrued interest payable	123,677
Claims payable	249,236
Deferred revenue	21,228,293
Long-term liabilities:	
Due within one year	1,983,206
Due in more than one year	33,717,939
Total liabilities	61,182,936
 <u>Net assets:</u>	
Invested in capital assets, net of related debt	9,295,451
Restricted for:	
Capital projects	376,998
Debt service	647,167
Other purposes	353,911
Unrestricted	(8,261,827)
Total net assets	\$ 2,411,700

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		Capital Grants and Contributions
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 16,092,306	\$ 1,431,108	\$ 219,458	\$ -	\$ (14,441,740)
Special	4,047,772	-	1,032,721	-	(3,015,051)
Vocational	1,906,438	520,201	10,857	-	(1,375,380)
Adult/continuing	114,447	47,991	54,116	-	(12,340)
Other	418,955	-	-	-	(418,955)
Support services:					
Pupils	1,907,199	10,000	143,058	-	(1,754,141)
Instructional staff	2,808,513	61,771	813,746	-	(1,932,996)
Board of education	185,137	-	-	-	(185,137)
Administration	2,589,325	-	-	-	(2,589,325)
Fiscal	831,799	-	-	-	(831,799)
Business	374,864	47,278	-	-	(327,586)
Operation and maintenance of plant	3,545,063	74,805	-	-	(3,470,258)
Pupil transportation	1,324,575	-	5,239	18,534	(1,300,802)
Central	307,345	338	114,743	-	(192,264)
Operation of non-instructional services:					
Food service operations	971,347	600,059	402,438	-	31,150
Community services	418,418	92,814	210,721	-	(114,883)
Extracurricular activities	1,103,452	341,010	-	-	(762,442)
Interest and fiscal charges	1,437,627	-	-	-	(1,437,627)
Intergovernmental	13,502,532	-	2,532	-	(13,500,000)
Total governmental activities	\$ 53,887,114	\$ 3,227,375	\$ 3,009,629	\$ 18,534	(47,631,576)

General Revenues:

Property taxes levied for:

General purposes	20,128,800
Debt service	2,067,514
Grants and entitlements not restricted to specific programs	14,669,240
Investment earnings	134,247
Miscellaneous	26,987

Total general revenues 37,026,788

Change in net assets (10,604,788)

Net assets at beginning of year - (See Note 3) 13,016,488

Net assets at end of year \$ 2,411,700

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 7,220,450	\$ 598,107	\$ 1,075,997	\$ 8,894,554
Cash and cash equivalents:				
In segregated accounts	-	-	47,508	47,508
Inventory held for resale	-	-	11,081	11,081
Materials and supplies inventory	37,358	-	26,611	63,969
Receivables:				
Accounts	150,644	-	15,819	166,463
Intergovernmental	64,304	-	42,925	107,229
Accrued interest	6,927	-	20	6,947
Interfund	4,665	-	-	4,665
Taxes	20,343,648	2,520,676	-	22,864,324
Total assets	<u>\$ 27,827,996</u>	<u>\$ 3,118,783</u>	<u>\$ 1,219,961</u>	<u>\$ 32,166,740</u>
<u>Liabilities and fund balances:</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 48,797	\$ -	\$ 132,942	\$ 181,739
Accrued wages	2,244,275	-	206,328	2,450,603
Compensated absences payable	19,634	-	-	19,634
Interfund payable	-	-	4,665	4,665
Intergovernmental payable	783,206	-	42,501	825,707
Deferred revenue	19,913,560	2,441,903	28,184	22,383,647
Undistributed monies	1,457	-	-	1,457
Total liabilities	<u>23,010,929</u>	<u>2,441,903</u>	<u>414,620</u>	<u>25,867,452</u>
<u>Fund balances:</u>				
Reserved for encumbrances	347,051	-	375,013	722,064
Reserved for property taxes	554,070	78,773	-	632,843
Unreserved,				
Undesignated, reported in:				
General fund	3,915,946	-	-	3,915,946
Special revenue funds	-	-	292,265	292,265
Debt service fund	-	598,107	-	598,107
Capital projects funds	-	-	138,063	138,063
Total fund balances	<u>4,817,067</u>	<u>676,880</u>	<u>805,341</u>	<u>6,299,288</u>
Total liabilities and fund balances	<u>\$ 27,827,996</u>	<u>\$ 3,118,783</u>	<u>\$ 1,219,961</u>	<u>\$ 32,166,740</u>

See accompanying notes to the basic financial statements.

Kent City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total governmental fund balances		\$ 6,299,288
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,977,192
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,003,188	
Intergovernmental	23,622	
Tuition and fees	126,253	
Rent	600	
Miscellaneous	<u>1,691</u>	
		1,155,354
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		2,069,369
Deferred charges are included in the governmental activities in the statement of net assets.		136,764
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.		(401,445)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (32,495,786)	
Compensated absences	(2,331,783)	
Capital leases	(873,576)	
Accrued interest payable	(123,677)	
Total	<u>(35,824,822)</u>	
Net assets of governmental activities		<u><u>\$ 2,411,700</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:-				
Property taxes	\$ 19,470,213	\$ 1,988,790	\$ -	\$ 21,459,003
Intergovernmental	14,457,962	229,812	2,897,817	17,585,591
Interest	133,417	-	1,405	134,822
Tuition and fees	1,524,220	-	189,089	1,713,309
Extracurricular activities	-	-	393,840	393,840
Gifts and donations	14,920	-	72,781	87,701
Customer services	60,704	-	731,101	791,805
Rent	74,804	-	17,907	92,711
Miscellaneous	19,880	-	114,184	134,064
Total revenues	<u>35,756,120</u>	<u>2,218,602</u>	<u>4,418,124</u>	<u>42,392,846</u>
Expenditures:-				
Current:				
Instruction:				
Regular	15,036,048	-	751,777	15,787,825
Special	3,053,282	-	1,018,639	4,071,921
Vocational	1,858,410	-	63,197	1,921,607
Adult/continuing	-	-	114,078	114,078
Other	418,955	-	-	418,955
Support services:				
Pupils	1,756,220	-	132,494	1,888,714
Instructional staff	2,134,007	-	628,921	2,762,928
Board of education	184,509	-	-	184,509
Administration	2,694,472	880	16,179	2,711,531
Fiscal	792,652	33,326	-	825,978
Business	372,908	-	-	372,908
Operation and maintenance of plant	3,134,362	-	59,256	3,193,618
Pupil transportation	1,177,321	-	33,566	1,210,887
Central	192,450	-	57,198	249,648
Operation of non-instructional services:				
Food service operations	-	-	974,231	974,231
Community services	105,410	-	310,271	415,681
Extracurricular activities	620,969	-	379,825	1,000,794
Capital outlay	233,581	-	363,359	596,940
Intergovernmental	-	13,500,000	2,532	13,502,532
Debt service:				
Principal retirement	169,616	14,272,000	-	14,441,616
Interest and fiscal charges	37,528	1,261,762	-	1,299,290
Issuance costs	-	136,764	-	136,764
Total expenditures	<u>33,972,700</u>	<u>29,204,732</u>	<u>4,905,523</u>	<u>68,082,955</u>
Excess of revenues over (under) expenditures	<u>1,783,420</u>	<u>(26,986,130)</u>	<u>(487,399)</u>	<u>(25,690,109)</u>
Other financing sources (uses):-				
Proceeds of bonds	-	13,499,996	-	13,499,996
Proceeds of notes	-	13,500,000	-	13,500,000
Premium on debt issuance	-	183,725	-	183,725
Accrued interest received on debt issuance	-	42,366	-	42,366
Transfers in	-	85,295	575,850	661,145
Transfers out	(661,145)	-	-	(661,145)
Total other financing sources (uses)	<u>(661,145)</u>	<u>27,311,382</u>	<u>575,850</u>	<u>27,226,087</u>
Net change in fund balances	1,122,275	325,252	88,451	1,535,978
Fund balances at beginning of year, (Restated see Note 3)	<u>3,694,792</u>	<u>351,628</u>	<u>716,890</u>	<u>4,763,310</u>
Fund balances at end of year	<u>\$ 4,817,067</u>	<u>\$ 676,880</u>	<u>\$ 805,341</u>	<u>\$ 6,299,288</u>

See accompanying notes to the basic financial statements.

Kent City School District
**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net change in fund balances - total governmental funds		\$ 1,535,978
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Capital asset additions	\$ 596,940	
Depreciation expense	<u>(1,514,714)</u>	
Excess of capital outlay over depreciation expense		(917,774)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property taxes	\$ 737,314	
Intergovernmental	23,622	
Tuition and fees	120,076	
Rent	600	
Miscellaneous	<u>7,868</u>	
Net change in deferred revenues during the year		889,480
Proceeds of bonds provide current financial resources and are reported as revenue in the governmental funds but are not reported as revenue in the statement of activities.		
		(13,499,996)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		772,000
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		
		169,616
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	\$ 7,565	
Increase in pension obligation	(40,192)	
Increase in accrued interest	(40,607)	
Current year issuance cost	136,764	
Bond accretion	(140,096)	
Premium received for bonds	<u>(183,725)</u>	
Total additional expenditures		<u>(260,291)</u>
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		
		<u>706,199</u>
Change in net assets of governmental activities		<u><u>\$ (10,604,788)</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual - General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes	\$ 19,492,764	\$ 19,274,239	\$ 19,274,239	\$ -
Intergovernmental	14,157,448	14,293,658	14,393,658	100,000
Interest	125,578	125,578	126,490	912
Tuition and fees	1,337,443	1,532,654	1,534,296	1,642
Rent	85,944	73,714	73,714	-
Gifts and donations	14,286	14,920	14,920	-
Customer services	50,180	58,860	58,860	-
Miscellaneous	10,182	10,224	10,289	65
Total revenues	<u>35,273,825</u>	<u>35,383,847</u>	<u>35,486,466</u>	<u>102,619</u>
Expenditures:				
Current:				
Instruction:				
Regular	15,341,961	15,311,385	15,311,353	32
Special	3,120,859	3,119,767	3,119,767	-
Vocational	1,822,150	1,887,037	1,887,037	-
Other	338,037	428,192	428,192	-
Support services:				
Pupils	1,882,186	1,856,719	1,856,719	-
Instructional staff	2,243,057	2,134,564	2,134,564	-
Board of education	271,754	186,197	186,197	-
Administration	2,698,884	2,696,161	2,696,161	-
Fiscal	826,365	818,059	818,059	-
Business	388,486	378,627	378,627	-
Operation and maintenance of plant	3,204,026	3,194,742	3,194,742	-
Pupil transportation	1,470,485	1,462,154	1,462,154	-
Central	207,427	195,981	195,981	-
Operation of non-instructional services:				
Community services	130,615	106,031	106,031	-
Extracurricular activities	632,661	622,514	622,514	-
Capital outlay	186,543	188,616	188,616	-
Total expenditures	<u>34,765,496</u>	<u>34,586,746</u>	<u>34,586,714</u>	<u>32</u>
Excess of revenues over (under) expenditures	<u>508,329</u>	<u>797,101</u>	<u>899,752</u>	<u>102,651</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	1,610	1,610	-
Refund of prior year expenditures	26,500	7,794	7,794	-
Refund of prior year receipts	(11,665)	(1,600)	(1,600)	-
Advances in	7,585	7,585	7,585	-
Advances out	(10,000)	(4,665)	(4,665)	-
Transfers out	(681,230)	(661,145)	(661,145)	-
Total other financing sources (uses)	<u>(668,810)</u>	<u>(650,421)</u>	<u>(650,421)</u>	<u>-</u>
Net change in fund balance	(160,481)	146,680	249,331	102,651
Fund balance at beginning of year	6,007,123	6,007,123	6,007,123	-
Prior year encumbrances appropriated	487,529	487,529	487,529	-
Fund balance at end of year	<u>\$ 6,334,171</u>	<u>\$ 6,641,332</u>	<u>\$ 6,743,983</u>	<u>\$ 102,651</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2004

	<u>Self</u> <u>Insurance</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,303,422
Accounts receivable	<u>15,183</u>
Total assets	<u><u>2,318,605</u></u>
Liabilities:	
Claims payable	<u>249,236</u>
Net assets:	
Unrestricted	<u>2,069,369</u>
Total liabilities and net assets	<u><u>\$ 2,318,605</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Self Insurance
Operating revenues	
Charges for services	\$ 3,716,708
Other	224,579
Total operating revenues	3,941,287
Operating expenses:	
Purchased services	438,055
Claims	2,797,033
Total operating expenses	3,235,088
Operating income	706,199
Change in net assets	706,199
Net assets at beginning of year	1,363,170
Net assets at end of year	\$ 2,069,369

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Self Insurance
Cash flows from operating activities:	
Cash received for charges for services	\$ 3,926,104
Cash payments to suppliers for goods and services	(438,055)
Cash payments for claims	(2,752,910)
Net cash provided by operating activities	735,139
 Net increase in cash and cash equivalents	 735,139
 Cash and cash equivalents at beginning of year	 1,568,283
Cash and cash equivalents at end of year	\$ 2,303,422
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 706,199
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(15,183)
Increase (decrease) in liabilities:	
Claims payable	44,123
Total adjustments	28,940
Net cash provided by operating activities	\$ 735,139

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 75,058
Receivables:	
Accounts	<u>750</u>
Total assets	<u><u>\$ 75,808</u></u>
Liabilities:	
Accounts payable	\$ 3,937
Intergovernmental payable	381
Due to students	<u>71,490</u>
Total liabilities	<u><u>\$ 75,808</u></u>

See accompanying notes to the basic financial statements.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's eight instructional/support facilities staffed by 232 non-certificated employees and 352 certificated teaching and support personnel who provide services to 3,640 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. This includes general operations, food service, preschool and student-related activities of the School District. The St. Patrick's School is a nonpublic school located within School District boundaries. Current legislation provides for funding for this school. These monies are received and disbursed by the School District on behalf of the St. Patrick's School as directed by the school's management. Such transactions are reported as governmental activities of the School District.

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

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2004.

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Fund Accounting

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

Governmental Fund Types

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District has two major governmental funds:

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

Debt Service Fund: The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal and interest, as well as certain other long-term obligations from governmental resources when the School District is obligated in some manner for the payment.

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

C. Measurement Focus and Basis of Accounting

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

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

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

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

Revenue - Exchange and Non-exchange Transactions

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, investment earnings, tuition, grants and entitlements, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (excluding delinquent taxes) for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

D. Budgets and Budgetary Accounting

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

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

E. Cash and Investments

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

The School District invested funds in STAR Ohio during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

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

F. Interfund Balances

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

G. Inventory

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. Restricted assets may include unexpended revenues restricted for the purchase of school buses, and amounts required to be set aside by the School District for the purchase of textbooks or for the acquisition or construction of capital assets. Restricted assets may also include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. The School District expended all restricted assets in accordance with specific restrictions during the previous fiscal year. See Note 20 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

I. Capital Assets

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

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

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

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

J. Compensated Absences

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Operating Revenues and Expenses

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

N. Interfund Transactions

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

O. Estimates

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

P. Fund Balance Reserves

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

NOTE 3 – RESTATEMENT OF NET ASSETS

During fiscal year 2004, the School District changed its asset capitalization threshold from \$500 to \$2,000. The adjustment amount represents the net effect of removing the original costs and related accumulated depreciation of assets capitalized under the School District's previous capitalization policy. Also, management has determined that a fund previously reported as a fiduciary fund should be reported as a special revenue fund. Therefore, the fund balance at June 30, 2003 has been reclassified to a nonmajor governmental fund.

After the end of the previous fiscal year, it was discovered that the School District did not properly account for the accretion of discounted interest on capital appreciation bonds that were included in three separate bond issues. The adjustment amount represents the total accretion of discounted interest that should have been recorded through June 30, 2003 for all bonds. Also, an error was discovered in the calculation of compensated absence liabilities at the fund level as well as on the government-wide financial statements.

The following table summarizes these adjustments to fund balances and net assets and shows restated beginning balances:

	<i>General</i>	<i>Nonmajor</i>	<i>Total</i>
<i>Fund Balances,</i>			
<i>June 30, 2003</i>	\$ 3,660,933	\$ 1,057,531	\$ 4,718,464
<i>Fund reclassification</i>	-	10,987	10,987
<i>Compensated absences</i>	33,859	-	33,859
<i>Restated Fund Balances,</i>			
<i>June 30, 2003</i>	\$ 3,694,792	\$ 1,068,518	\$ 4,763,310
<i>Net Assets,</i>			
<i>June 30, 2003</i>			\$ 14,841,729
<i>Capital assets</i>			(632,795)
<i>Compensated absences</i>			(702,508)
<i>Long-term liabilities</i>			(534,784)
<i>Fund balance adjustments</i>			44,846
<i>Restated Net Assets,</i>			
<i>June 30, 2003</i>			\$ 13,016,488

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General</u>
<i>GAAP Basis</i>	\$ 1,122,275
<i>Revenue Accruals</i>	(252,665)
<i>Expenditure Accruals</i>	(273,228)
<i>Encumbrances (Budget Basis)</i>	
<i>Outstanding at year end</i>	(347,051)
<i>Budget Basis</i>	\$ 249,331

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

1. United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Deposits: The carrying value of the School District's deposits totaled \$9,967,492, and the bank balances of the deposits totaled \$10,295,668. The School District also had \$1,250 in petty cash at June 30, 2004. Of the bank balance, \$312,338 was covered by federal depository insurance and \$9,983,330 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

	<u>Category 3</u>	<u>Fair Value</u>
<u>Categorized Investments</u>		
<i>Repurchase Agreements</i>	\$ 310,000	\$ 310,000
<u>Noncategorized Investments</u>		
<i>State Treasurer's Pool</i>		<u>1,041,800</u>
<i>Total Investments</i>		<u>\$ 1,351,800</u>

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

All interest is legally required to be placed in the general, building, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2004 amount to \$133,417, which includes \$59,265 assigned from other School District funds.

NOTE 6 - PROPERTY TAX

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes, which became measurable as of year-end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as advances at year-end were \$554,070 in the general fund and \$78,773 in the bond retirement debt service fund, and are recognized as revenue on the fund financial statements.

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

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

<u>Property Category</u>	<u>2003</u> <u>Assessed Value</u>	<u>2002</u> <u>Assessed Value</u>
<u>Real Property</u>		
<i>Residential and agricultural</i>	\$ 323,030,170	\$ 293,674,250
<i>Commercial, industrial and minerals</i>	104,130,220	94,667,208
<i>Public utilities</i>	173,920	158,115
 <u>Tangible Personal Property</u>		
<i>General</i>	38,535,832	35,033,822
<i>Public utilities</i>	16,257,450	14,780,026
<i>Total</i>	<u>\$ 482,127,592</u>	<u>\$ 438,313,421</u>

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition and excess costs), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. The general fund accounts receivable at year-end consisted of tuition, excess costs and other miscellaneous reimbursements of \$150,644. Also, the general fund and several special revenue funds recorded intergovernmental receivables for state and federal grants and reimbursements totaling \$107,229.

NOTE 8 – CAPITAL ASSETS

The beginning balances of all capital asset classes have been restated by a total of \$632,795 as described in Note 3. Capital asset activity for the fiscal year ended June 30, 2004 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,456,613	\$ -	\$ -	\$ 1,456,613
Construction in progress	-	5,594	-	5,594
<i>Total capital assets, not being depreciated</i>	<u>1,456,613</u>	<u>5,594</u>	<u>-</u>	<u>1,462,207</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	38,259,434	287,304	-	38,546,738
Furniture, fixtures and equipment	7,241,794	93,208	-	7,335,002
Vehicles	1,989,743	210,834	(130,266)	2,070,311
<i>Total capital assets, being depreciated</i>	<u>47,490,971</u>	<u>591,346</u>	<u>(130,266)</u>	<u>47,952,051</u>
<i>Less: Accumulated depreciation</i>				
Buildings and improvements	(12,304,557)	(1,014,636)	-	(13,319,193)
Furniture, fixtures and equipment	(5,524,952)	(354,776)	-	(5,879,728)
Vehicles	(1,223,109)	(145,302)	130,266	(1,238,145)
<i>Total accumulated depreciation</i>	<u>(19,052,618)</u>	<u>(1,514,714)</u>	<u>130,266</u>	<u>(20,437,066)</u>
<i>Total capital assets being depreciated, net</i>	<u>28,438,353</u>	<u>(923,368)</u>	<u>-</u>	<u>27,514,985</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 29,894,966</u>	<u>\$ (917,774)</u>	<u>\$ -</u>	<u>\$ 28,977,192</u>

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 623,919
<i>Special</i>	41,395
<i>Vocational</i>	29,332
<i>Adult</i>	374
<i>Support services:</i>	
<i>Pupils</i>	41,604
<i>Instructional staff</i>	57,947
<i>Board of education</i>	515
<i>Administration</i>	13,067
<i>Business</i>	650
<i>Operation and maintenance of plant</i>	444,760
<i>Pupil transportation</i>	141,756
<i>Central</i>	51,719
<i>Food service operations</i>	3,409
<i>Operation of community services</i>	3,100
<i>Extracurricular activities</i>	<u>61,167</u>
<i>Total depreciation expense</i>	<u><u>\$ 1,514,714</u></u>

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. During the year, the general fund advanced a total of \$4,665 to the special trust fund, a nonmajor special revenue fund, in support of the fund's projects and programs. This advance is expected to be repaid during the next fiscal year.

NOTE 10 - INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The general fund transferred \$85,295 to the debt service fund and a total of \$575,850 to other nonmajor governmental funds.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - RISK MANAGEMENT

A. Property and Liability Insurance

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

B. Employee Medical Benefits

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$249,236, reported in the fund at year end was estimated by the third party administrator and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund's claims liability during 2003 and 2004 were:

<i>Fiscal Year</i>	<i>Balance at beginning of year</i>	<i>Current year claims</i>	<i>Claim payments</i>	<i>Balance at end of year</i>
2003	\$ 453,218	3,041,289	(3,289,394)	\$ 205,113
2004	\$ 205,113	2,797,033	(2,752,910)	\$ 249,236

C. Worker's Compensation

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

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

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$562,650, \$286,077, and \$266,759, respectively; 38% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$349,659, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3746.

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

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

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries and the School District was required to contribute an actuarially determined rate of 14% of annual covered payroll, which includes 13% for pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,532,296, \$1,150,516, and \$1,128,967, respectively; 84% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$413,237, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2004 were \$15,682 made by the School District and \$42,735 made by the plan members.

NOTE 13 - POST-EMPLOYMENT BENEFITS

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

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$194,792 during the 2004 fiscal year. The balance in the Health Care Stabilization Fund for the STRS was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by the STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. 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% of the premium. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. For fiscal year 2003, 5.83% was used to fund health care benefits.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$409,163, which includes a surcharge of \$105,245 during the 2004 fiscal year.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the SERS's net assets available for payment of health care benefits was \$300.8 million, at cost. The number of participants receiving health care benefits was approximately 62,000.

NOTE 14 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<u>Governmental activities</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds and Notes</u>					
<u>1997 School improvement bonds,</u>					
<u>5.10%, maturing December 1, 2021</u>					
Serial bonds	\$ 15,440,000	\$ -	\$ (575,000)	\$ 14,865,000	\$ 605,000
Capital appreciation bonds	356,187	-	-	356,187	-
Accretion on bonds	438,708	111,343	-	550,051	-
<u>1998 School improvement bonds,</u>					
<u>5.10%, maturing December 1, 2021</u>					
Serial bonds	2,815,000	-	(120,000)	2,695,000	125,000
Capital appreciation bonds	139,998	-	-	139,998	-
Accretion on bonds	96,076	24,853	-	120,929	-
<u>2004 Library Bonds, 1.50 - 5.00%,</u>					
<u>maturing December 1, 2028</u>					
Serial and term bonds	-	13,260,000	-	13,260,000	350,000
Capital appreciation bonds	-	239,996	-	239,996	-
Accretion on bonds	-	3,900	-	3,900	-
Premium	-	183,725	-	183,725	-
<u>1995 Energy Conservation Bonds,</u>					
<u>5.25%, maturing</u>					
<u>December 1, 2004</u>					
	158,000	-	(77,000)	81,000	81,000
<u>2004 Library Bond Anticipation</u>					
<u>Notes, 5.00%</u>					
	-	13,500,000	(13,500,000)	-	-
<u>Total Bonds</u>	<u>19,443,969</u>	<u>27,323,817</u>	<u>(14,272,000)</u>	<u>32,495,786</u>	<u>1,161,000</u>
<u>Other Obligations</u>					
Compensated absences	2,339,348	623,817	(631,382)	2,331,783	665,024
Capital leases payable	1,043,192	-	(169,616)	873,576	157,182
<u>Total other liabilities</u>	<u>3,382,540</u>	<u>623,817</u>	<u>(800,998)</u>	<u>3,205,359</u>	<u>822,206</u>
<u>Governmental activities</u>					
<u>long-term liabilities</u>	<u>\$ 22,826,509</u>	<u>\$ 27,947,634</u>	<u>\$ (15,072,998)</u>	<u>\$ 35,701,145</u>	<u>\$ 1,983,206</u>

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

During the 1998 and 1999 fiscal years, the School District issued general obligation bonds to finance construction and improvements of school buildings and facilities. Also, during fiscal year 2004, the School District issued Library Bond Anticipation Notes and Library Bonds. The Library Bond proceeds were used to retire the Anticipation Notes. All three of these bond issues include serial and capital appreciation bonds. Current year additions amounted to \$111,343, \$24,853, and \$3,900, respectively, which represent the accretion of discounted interest. The final amounts of the 1998, 1999 and 2004 capital appreciation bonds will be \$670,000, \$150,000 and \$510,000, respectively.

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

Principal and interest requirements to amortize all bonds outstanding at June 30, 2004 are as follows:

<i>Fiscal</i>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	1,161,000	1,463,619	2,624,619
2006	1,120,000	1,416,870	2,536,870
2007	689,751	1,868,652	2,558,403
2008	716,435	1,878,012	2,594,447
2009	1,144,493	1,443,799	2,588,292
2010-2014	6,780,506	6,077,607	12,858,113
2015-2019	8,549,996	4,262,750	12,812,746
2020-2024	7,675,000	1,546,050	9,221,050
2025-2029	3,800,000	400,775	4,200,775
<i>Total</i>	<u>\$ 31,637,181</u>	<u>\$ 20,358,134</u>	<u>\$ 51,995,315</u>

NOTE 15 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets acquired by lease have been capitalized as equipment in the amount of \$429,942 and as buildings in the amount of \$1,000,000. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$169,616.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

<i>Fiscal</i> <u>Year</u>	<i>Lease</i> <u>Payments</u>
2005	\$ 187,955
2006	181,477
2007	181,477
2008	181,477
2009	181,477
Thereafter	<u>55,451</u>
<i>Total minimum lease payments</i>	969,314
<i>Less: amount representing interest</i>	<u>(95,738)</u>
<i>Total</i>	<u>\$ 873,576</u>

NOTE 16 - OPERATING LEASES - LESSEE DISCLOSURE

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

<i>Fiscal</i> <u>Year</u>	<i>Lease</i> <u>Payments</u>
2005	\$ 33,915
2006	33,915
2007	<u>12,192</u>
<i>Total</i>	<u>\$ 80,022</u>

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

The Northeast Ohio Network for Educational Technology (NEOnet) is the computer service Organization or Data Acquisition Site (DAS) used by the School District. NEOnet is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All school districts in the consortium are required to pay fees, charges and assessments as charged. NEOnet is governed by a board made up of superintendents (or designees) from all of the participating school districts. An elected Executive Board consisting of nine members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOnet are made from the general fund. During fiscal year 2004, the School District contributed \$3,166 to NEOnet. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The Six District Vocational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. Effective July 1, 2003, the School District ceased acting as the fiscal agent for the Six District Vocational Compact. During fiscal year 2004, the School District contributed \$33,300 to the Six District Vocational Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

NOTE 18 - RELATED ORGANIZATIONS

The Kent Free Library (the "Library") is a related organization to the School District. The School Board members are responsible for appointing all the trustees of the Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library determines its own budget. During fiscal year 2004, the Library received \$13,500,000 in proceeds from the Library Bond Anticipation Notes issued by the School District.

The Kent Digital Academy (the "Academy") is a Charter School that has been determined to be a discrete component unit of the School District. However, management has determined that it is insignificant; therefore, its financial activity has been excluded from the School District's basic financial statements. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Kent Digital Academy, 321 N. Depeyster Street, Kent, OH 44240.

NOTE 19 - CONTINGENCIES

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

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

NOTE 20- STATUTORY RESERVES

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

During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbook</u> <u>Reserve</u>	<u>Capital</u> <u>Maintenance</u> <u>Reserve</u>	<u>Total</u>
<i>Set-aside cash balance as of</i>			
<i>June 30, 2003</i>	\$ (612,936)	\$ -	\$ (612,936)
<i>Current year set-aside requirement</i>	523,187	523,187	1,046,374
<i>Qualifying disbursements</i>	<u>(502,838)</u>	<u>(1,565,025)</u>	<u>(2,067,863)</u>
<i>Total</i>	<u>\$ (592,587)</u>	<u>\$ (1,041,838)</u>	<u>\$ (1,634,425)</u>
<i>Balance carried forward to future years</i>	<u>\$ (592,587)</u>		<u>\$ (592,587)</u>

NOTE 21 – ACCOUNTABILITY

As of June 30, 2004, several special revenue funds had deficit fund balances/net assets. These deficits were caused by the application of GAAP. The general fund provides advances to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had deficit balances:

<u>Fund</u>	<u>Amount</u>
<i>Rotary</i>	\$ 2,747
<i>IDEA Preschool Grant for the Handicapped</i>	1,242
<i>Title VI</i>	215

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 – SUBSEQUENT EVENT

On December 1, 2004, the School District issued \$13,630,000 of general obligation bonds, the proceeds of which were used to advance refund the 1997 school improvement bonds issued in a prior year. The interest rate on the bonds ranges from 2.50 to 5.00 percent and the final maturity is in 2021. Principal and interest payments will be made semi-annually and are to be paid from voted and unvoted general property taxes.

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster						
Food Commodity Distribution		10.550		\$34,870		\$34,870
School Breakfast Program	05-PU	10.553	\$74,364		\$74,364	
National School Lunch Program	LLP4-03/04	10.555	299,911		299,911	
Total Child Nutrition Cluster			<u>374,275</u>	<u>34,870</u>	<u>374,275</u>	<u>34,870</u>
Total U.S. Department of Agriculture			<u>374,275</u>	<u>34,870</u>	<u>374,275</u>	<u>34,870</u>
<u>U.S. DEPARTMENT OF LABOR</u>						
<i>Passed Through Ohio Department of Jobs & Family Services</i>						
Workforce Investment Act (WIA) Youth Services		17.259	1,980		1,980	
Total U.S. Department of Labor			<u>1,980</u>		<u>1,980</u>	
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States (IDEA, Part B)		6BPM-04/6BSF04				
Special Education - Preschool Grant		6BSA-03/04	585,330		566,659	
		PG-S1 & PG-SC	27,465		33,457	
Total Special Education Cluster			<u>612,795</u>		<u>600,116</u>	
Adult Education - State Grant Program	ABS1-04	84.002	81,702		97,422	
Grants to Local Educational Agencies (Title I)	C1S1-03/04	84.010	821,217		826,611	
Vocational Education Basic Grants to State	20C1-03/04	84.048	73,011		73,599	
Safe and Drug Free Schools - Community Service	T4S1-03/04/04P	84.184	8,557		6,913	
Safe and Drug Free Schools (Title IV-A)	DRS1-03/04	84.186	25,062		24,437	
State and Local Education Systemic Improvement	G2SP-03	84.276	(46)		378	
Innovative Education Program Strategies (Title V)	C2S1-04	84.298	22,911		27,880	
Technology Literacy Challenge Fund Grants (Title II-D)	TJS1-03/04	84.318	22,100		14,784	
Advanced Placement Program		84.330	400			
English Language Acquisition Grants (Title III)	T3S1-03/04	84.365	11,816		10,786	
Improving Teacher Quality State Grants	TRS1-03/04	84.367	247,318		272,381	
Total U.S. Department of Education			<u>1,926,843</u>		<u>1,955,307</u>	
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Jobs & Family Services</i>						
Temporary Assistance for Needy Families (TANF)		93.558	7,650		7,650	
Medical Assistance Payments - Title XIX (Community Alternative Funding System)		93.778	77,163		77,163	
Total U.S. Department of Health & Human Services			<u>84,813</u>		<u>84,813</u>	
Totals			<u>\$2,387,911</u>	<u>\$34,870</u>	<u>\$2,416,375</u>	<u>\$34,870</u>

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

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent City School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 5, 2005.

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

This report is intended for the information and use of the management, 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

April 5, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Kent City School District, Portage County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the 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 District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended for the information and use of the management, 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

April 5, 2005

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies; CFDA No. 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: > \$100,000
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 31, 2005**