

Kent City School District

Portage County, Ohio

Basic Financial Statements
For Fiscal Year Ended: June 30, 2011



Dave Yost • Auditor of State

Board of Education
Kent City School District
321 North Depeyster Street
Kent, Ohio 44240

We have reviewed the *Independent Auditor's Report* of the Kent City School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 17, 2012

This page intentionally left blank.

KENT CITY SCHOOL DISTRICT
For the Year Ended June 30, 2011
Table of Contents

	Page
Independent Auditor’s 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
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	18
Statement of Fund Net Assets – Internal Service Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund	20
Statement of Cash Flows – Internal Service Fund	21
Statement of Fiduciary Net Assets – Fiduciary Funds	22
Notes to the Basic Financial Statements	23
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	49
Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	51
Schedule of Expenditures of Federal Awards – Cash Basis.....	53
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis	54
Schedule of Findings and Questioned Costs	55
Independent Accountant’s Report on Applying Agreed-Upon Procedure	56

This page intentionally left blank.



December 16, 2011

The Board of Education
Kent City School District, Ohio
321 North Depeyster Street
Kent, Ohio 44240

INDEPENDENT AUDITOR'S REPORT

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 (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2011, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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, 2011. 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 2011 are as follows:

- Net assets of governmental activities decreased by \$405,988 from 2010.
- General revenues accounted for \$38,714,395 in revenue or 80.03% of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$9,658,203 or 19.97% of total revenues of \$48,372,598.
- The School District had \$48,778,586 in expenses related to governmental activities; only \$9,658,203 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$38,714,395 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$17,713,895, a decrease of \$206,743 from 2010.

Using this Annual Financial Report

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

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

Kent City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

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 2011?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 2011 compared to 2010:

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 46,854,731	\$ 45,730,565
Capital assets, net of depreciation	26,859,909	27,411,974
Total assets	<u>73,714,640</u>	<u>73,142,539</u>
Liabilities		
Current and other liabilities	26,815,322	24,359,642
Long-term liabilities:		
Due within one year	2,371,021	2,224,101
Due in more than one year	<u>26,027,891</u>	<u>27,652,402</u>
Total liabilities	<u>55,214,234</u>	<u>54,236,145</u>
Net Assets		
Invested in capital assets, net of related debt	12,851,588	12,284,031
Restricted	1,863,140	2,076,382
Unrestricted	<u>3,785,678</u>	<u>4,545,981</u>
Total net assets	<u>\$ 18,500,406</u>	<u>\$ 18,906,394</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the School District's assets exceeded liabilities by \$18,500,406, a decrease of \$405,988 from net assets at June 30, 2010.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2011. Capital assets include land and construction in progress, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles which 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, \$1,863,140 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$710,555 is restricted for debt service payments; \$516,784 is restricted for capital projects; \$3,373 is restricted for scholarships and \$632,428 is restricted for other purposes. The remaining significant balance of government-wide unrestricted net assets of \$3,785,678 may 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, 2011
Unaudited

Table 2 shows change in net assets for fiscal years 2011 and 2010.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues:		
Charges for services	\$ 4,459,036	\$ 4,184,142
Operating grants, contributions and interest	5,199,167	4,481,990
General revenues:		
Property taxes	20,719,439	23,988,667
Grants and entitlements	17,924,691	18,265,165
Investment earnings	31,616	66,165
Miscellaneous	25,464	43,921
Capital contributions	13,185	95,859
Total revenues	<u>48,372,598</u>	<u>51,125,909</u>
Program Expenses		
Instruction:		
Regular	19,935,898	19,307,323
Special	5,630,098	5,516,384
Vocational	2,222,055	2,186,661
Adult/continuing	45,589	42,243
Student intervention services	461,651	425,257
Other	542,413	668,944
Support services:		
Pupils	2,599,427	2,557,729
Instructional staff	2,851,698	2,519,379
Board of education	213,430	174,970
Administration	3,191,029	3,264,732
Fiscal	950,922	1,010,988
Business	381,722	373,354
Operation and maintenance of plant	3,299,408	3,394,618
Pupil transportation	1,837,529	1,594,294
Central	343,123	345,168
Operation of non-instructional services:		
Food service operations	1,352,612	1,331,307
Community services	482,704	452,642
Extracurricular activities	1,204,464	1,194,897
Interest and fiscal charges	1,232,814	1,273,966
Intergovernmental	-	14,301
Total expenses	<u>48,778,586</u>	<u>47,649,157</u>
Change in net assets	(405,988)	3,476,752
Net assets at beginning of year	<u>18,906,394</u>	<u>15,429,642</u>
Net assets at end of year	<u>\$ 18,500,406</u>	<u>\$ 18,906,394</u>

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Governmental Activities

Several revenue sources fund governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$20.7 million in 2011, representing a decrease of \$3,269,228 from 2010. The decrease in property taxes represents the amount estimated for the decline in tangible property taxes that is not being collected. In addition, the amount of property taxes available as an advance and recognized as revenue for 2011 was \$1,872,537, which is a decrease of \$2,258,225 from 2010. General revenues from grants and entitlements, such as the school foundation program, generated over \$17.9 million. With the combination of taxes and intergovernmental funding comprising approximately 79.9% 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 \$28,837,704, or 59.1% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$5,451,125, or 11.18% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$4,737,103, or 9.71% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$3,299,408 made up 6.76% of all governmental expenses.

Pupil transportation is related primarily to the activities at the School District's bus garage. This amount mainly includes salaries and wages, maintenance, fuel costs and depreciation of related vehicles, equipment and buildings. For 2011, this expense is \$1,837,529 or 3.77% of all governmental expenses.

A significant component of unrestricted net assets is the general obligation debt outstanding that was issued on behalf of the Kent Free Library. The carrying value of this debt is \$10,998,416, which includes the principal, accretion and premium associated with this debt.

The *Statement of Activities* shows the cost of program services and the charges for services and grants and contributions offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2011 and 2010. 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, 2011
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2011</u>	Net Cost of Services <u>2010</u>
Program Expenses				
Instruction:				
Regular	\$ 19,935,898	\$ 19,307,323	\$ (17,072,518)	\$ (16,818,625)
Special	5,630,098	5,516,384	(3,829,790)	(3,825,124)
Vocational	2,222,055	2,186,661	(1,282,020)	(1,349,789)
Adult/continuing	45,589	42,243	6,427	(2,944)
Student intervention services	461,651	425,257	(392,655)	(363,819)
Other	542,413	668,944	(542,413)	(668,944)
Support services:				
Pupils	2,599,427	2,557,729	(2,351,041)	(2,315,482)
Instructional staff	2,851,698	2,519,379	(1,962,151)	(1,786,753)
Board of education	213,430	174,970	(213,430)	(174,970)
Administration	3,191,029	3,264,732	(3,013,123)	(3,105,058)
Fiscal	950,922	1,010,988	(950,922)	(1,010,988)
Business	381,722	373,354	(381,722)	(373,354)
Operation and maintenance of plant	3,299,408	3,394,618	(3,140,669)	(3,229,350)
Pupil transportation	1,837,529	1,594,294	(1,753,119)	(1,561,334)
Central	343,123	345,168	(178,783)	(252,095)
Operation non-instructional services:				
Food service operations	1,352,612	1,331,307	42,983	62,236
Community services	482,704	452,642	(192,694)	(158,460)
Extracurricular activities	1,204,464	1,194,897	(679,929)	(759,905)
Interest and fiscal charges	1,232,814	1,273,966	(1,232,814)	(1,273,966)
Intergovernmental	-	14,301	-	(14,301)
Total	<u>\$ 48,778,586</u>	<u>\$ 47,649,157</u>	<u>\$ (39,120,383)</u>	<u>\$ (38,983,025)</u>

The dependence upon tax revenues for governmental activities is apparent with only 19.80% of governmental expenses supported by program revenues.

The School District's Funds

The School District's funds are accounted for using the modified accrual basis of accounting. The total revenues are \$48,022,707 and total expenditures are \$48,229,450. The total net change in fund balance across all governmental funds was a decrease of \$206,743. The general fund reported a net increase in fund balance amounting to \$39,026 or 0.24%. The increase is due to current year revenues exceeding current year expenditures for the general fund. Net decreases across all other nonmajor governmental funds amounted to \$245,769, or 14.09%. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

Kent City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2011
 Unaudited

Table 4
 Fund Balances

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase (Decrease)
General	\$ 16,214,865	\$ 16,175,839	\$ 39,026
Other governmental	1,499,030	1,744,799	(245,769)
Total	<u>\$ 17,713,895</u>	<u>\$ 17,920,638</u>	<u>\$ (206,743)</u>

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 2011, 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 \$41,713,344, which was higher than the original budget estimate of \$41,391,049. This difference of \$322,295, or .78%, is due primarily to an increase in property tax revenues. 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 actual revenue and other financing sources was \$41,747,514, which was slightly higher than the final budget estimate.

The original expenditures and other financing uses estimate of \$40,632,132 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$40,380,740 or \$251,392 lower than the original. The final appropriation was adjusted at year-end to reflect actual expenditures and encumbrances for the fiscal year. No significant expenditure budget revisions were posted to the general fund during the year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$26,859,909 invested in capital assets. Table 5 shows fiscal year 2011 balances compared to fiscal year 2010:

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 5
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 1,648,218	\$ 1,648,218
Construction in progress	101,099	146,750
Land improvements	226,851	250,033
Buildings and improvements	23,429,738	24,068,258
Furniture, fixtures and equipment	560,889	538,487
Vehicles	<u>893,114</u>	<u>760,228</u>
Total capital assets	<u>\$ 26,859,909</u>	<u>\$ 27,411,974</u>

The total decrease in capital assets is due to current year depreciation expense exceeding acquisitions of the current year. See Note 8 to the basic financial statements for detail on the School District's capital assets. It should be noted that the vehicles being reported at a cost of \$2,925,937 have a book value of only \$893,114 or approximately 30% of cost. This indicates that the vehicles, in total, are considerably depreciated and perhaps a number of vehicles, such as buses, are approaching the end of their useful lives.

Debt

At June 30, 2011, the School District had general obligation bonds outstanding of \$24,236,415, with \$1,530,000 due within one year. Also, the School District has capital lease obligations of \$1,181,028, with \$142,053 due within one year. The outstanding bond balance reflects a net decrease of \$1,379,556 which is due to the retirement of bonds. The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund.

At June 30, 2011, the School District's overall legal debt margin (the ability to issue additional amounts of general obligation debt) was \$19,954,755, with an unvoted debt margin of \$482,219. 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 works toward a solution to the State's unconstitutional education funding system. Although the School District relies heavily on its property taxpayers to support its operations, community support remains quite strong.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions or need additional financial information, contact Deborah A. Krutz, Treasurer, Kent City School District, 321 North Depeyster Street, Kent, Ohio 44240, by phone (330) 676-7640 or e-mail deborah.krutz@kentschools.net.

Kent City School District
Statement of Net Assets
June 30, 2011

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 21,520,722
Cash and cash equivalents:	
In segregated accounts	7,500
Inventory held for resale	10,617
Materials and supplies inventory	125,106
Deferred charges	184,088
Receivables:	
Accounts	536,729
Intergovernmental	400,247
Taxes	24,064,246
Prepaid items	5,476
Capital assets:	
Land and construction in progress	1,749,317
Depreciable capital assets, net	25,110,592
Total capital assets	<u>26,859,909</u>
Total assets	<u>73,714,640</u>
<u>Liabilities:</u>	
Accounts payable	297,471
Accrued wages	3,649,203
Intergovernmental payable	1,543,684
Undistributed monies	4,335
Accrued interest payable	85,020
Claims payable	479,493
Deferred revenue	20,756,116
Long-term liabilities:	
Due within one year	2,371,021
Due in more than one year	26,027,891
Total liabilities	<u>55,214,234</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	12,851,588
Restricted for:	
Capital outlay	516,784
Debt service	710,555
Permanent fund purpose - scholarships	
Expendable	1,873
Nonexpendable	1,500
Other purposes	632,428
Unrestricted	<u>3,785,678</u>
Total net assets	<u>\$ 18,500,406</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenues and Changes in Net Assets
				Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$ 19,935,898	\$ 2,189,233	\$ 674,147	\$ (17,072,518)
Special	5,630,098	102,008	1,698,300	(3,829,790)
Vocational	2,222,055	940,035	-	(1,282,020)
Adult/continuing	45,589	52,016	-	6,427
Student intervention services	461,651	-	68,996	(392,655)
Other	542,413	-	-	(542,413)
Support services:				
Pupils	2,599,427	2,466	245,920	(2,351,041)
Instructional staff	2,851,698	-	889,547	(1,962,151)
Board of education	213,430	-	-	(213,430)
Administration	3,191,029	-	177,906	(3,013,123)
Fiscal	950,922	-	-	(950,922)
Business	381,722	-	-	(381,722)
Operation and maintenance of plant	3,299,408	158,739	-	(3,140,669)
Pupil transportation	1,837,529	48,577	35,833	(1,753,119)
Central	343,123	36,698	127,642	(178,783)
Operation of non-instructional services:				
Food service operations	1,352,612	540,168	855,427	42,983
Community services	482,704	48,980	241,030	(192,694)
Extracurricular activities	1,204,464	340,116	184,419	(679,929)
Interest and fiscal charges	1,232,814	-	-	(1,232,814)
Total governmental activities	<u>\$ 48,778,586</u>	<u>\$ 4,459,036</u>	<u>\$ 5,199,167</u>	<u>(39,120,383)</u>

General Revenues:

Property taxes levied for:

General purposes	18,631,988
Debt service	2,087,451
Grants and entitlements not restricted to specific programs	17,924,691
Investment earnings	31,616
Miscellaneous	25,464
Capital contributions	13,185

Total general revenues 38,714,395

Change in net assets (405,988)

Net assets at beginning of year 18,906,394

Net assets at end of year \$ 18,500,406

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 19,079,760	\$ 1,946,840	\$ 21,026,600
Cash and cash equivalents:			
In segregated accounts	-	7,500	7,500
Inventory held for resale	-	10,617	10,617
Materials and supplies inventory	121,487	3,619	125,106
Receivables:			
Accounts	391,071	980	392,051
Intergovernmental	46,114	354,133	400,247
Interfund	16,997	-	16,997
Taxes	21,510,116	2,554,130	24,064,246
Prepaid items	5,476	-	5,476
Total assets	<u>\$ 41,171,021</u>	<u>\$ 4,877,819</u>	<u>\$ 46,048,840</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 112,806	\$ 184,665	\$ 297,471
Accrued wages	3,286,414	362,789	3,649,203
Interfund payable	-	16,997	16,997
Intergovernmental payable	1,431,693	111,991	1,543,684
Deferred revenue	20,120,908	2,702,347	22,823,255
Undistributed monies	4,335	-	4,335
Total liabilities	<u>24,956,156</u>	<u>3,378,789</u>	<u>28,334,945</u>
<u>Fund balances:</u>			
Nonspendable	126,963	15,736	142,699
Restricted	-	1,242,636	1,242,636
Assigned	4,706,717	516,784	5,223,501
Unassigned	11,381,185	(276,126)	11,105,059
Total fund balances	<u>16,214,865</u>	<u>1,499,030</u>	<u>17,713,895</u>
Total liabilities and fund balances	<u>\$ 41,171,021</u>	<u>\$ 4,877,819</u>	<u>\$ 46,048,840</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, 2011

Total governmental fund balances		\$ 17,713,895
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.		26,859,909
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,435,593	
Intergovernmental	354,333	
Tuition and fees	<u>277,213</u>	
		2,067,139
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.		159,307
Deferred charges are included in the governmental activities in the statement of net assets.		184,088
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(85,020)
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:		
Serial and term	\$ (22,790,000)	
Capital appreciation, including accretion	(1,207,829)	
Premium	(755,445)	
Unamortized cost of refunding	516,859	
Compensated absences	(2,981,469)	
Capital leases	<u>(1,181,028)</u>	
Total		<u>(28,398,912)</u>
Net assets of governmental activities		<u>\$ 18,500,406</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, 2011

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 18,492,597	\$ 2,054,785	\$ 20,547,382
Intergovernmental	17,702,403	5,148,927	22,851,330
Interest	31,616	888	32,504
Tuition and fees	3,150,334	-	3,150,334
Extracurricular activities	59,301	328,116	387,417
Gifts and donations	39,546	75,455	115,001
Customer services	107,185	538,053	645,238
Rent	178,014	2,466	180,480
Miscellaneous	96,615	16,406	113,021
Total revenues	<u>39,857,611</u>	<u>8,165,096</u>	<u>48,022,707</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	17,942,175	576,805	18,518,980
Special	3,830,433	1,703,537	5,533,970
Vocational	2,132,166	3,631	2,135,797
Adult/Continuing	45,089	500	45,589
Student intervention services	388,046	67,690	455,736
Other	542,413	-	542,413
Support services:			
Pupils	2,271,970	239,512	2,511,482
Instructional staff	1,843,979	849,849	2,693,828
Board of education	210,930	2,500	213,430
Administration	2,890,961	172,567	3,063,528
Fiscal	896,864	41,999	938,863
Business	356,137	-	356,137
Operation and maintenance of plant	2,887,277	183,340	3,070,617
Pupil transportation	1,533,866	34,046	1,567,912
Central	211,064	123,052	334,116
Operation of non-instructional services:			
Food service operations	-	1,338,156	1,338,156
Community services	220,637	249,034	469,671
Extracurricular activities	672,780	497,069	1,169,849
Capital outlay	296,174	240,765	536,939
Debt service:			
Principal retirement	135,449	1,500,000	1,635,449
Interest and fiscal charges	55,825	1,041,163	1,096,988
Total expenditures	<u>39,364,235</u>	<u>8,865,215</u>	<u>48,229,450</u>
Excess of revenues over (under) expenditures	<u>493,376</u>	<u>(700,119)</u>	<u>(206,743)</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	454,350	454,350
Transfers out	(454,350)	-	(454,350)
Total other financing sources (uses)	<u>(454,350)</u>	<u>454,350</u>	<u>-</u>
Net change in fund balances	39,026	(245,769)	(206,743)
Fund balances at beginning of year, as restated	16,175,839	1,744,799	17,920,638
Fund balances at end of year	<u>\$ 16,214,865</u>	<u>\$ 1,499,030</u>	<u>\$ 17,713,895</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, 2011

Net change in fund balances - total governmental funds \$ (206,743)

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 outlay	\$ 536,939	
Capital contributions	13,185	
Depreciation expense	<u>(1,102,189)</u>	
Excess of capital outlay over depreciation expense		(552,065)

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	\$ 172,057	
Intergovernmental	159,386	
Tuition and fees	5,780	
Miscellaneous	<u>(517)</u>	
Net change in deferred revenues during the year		336,706

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,500,000

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 135,449

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:

Increase in compensated absences	\$ (37,414)	
Decrease in accrued interest	12,446	
Amortization of:		
Issuance cost	(27,828)	
Premium	129,868	
Deferred cost of refunding	(93,996)	
Bond accretion	<u>(156,316)</u>	
Total additional expenditures		(173,240)

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. (1,446,095)

Change in net assets of governmental activities \$ (405,988)

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Taxes	\$ 20,019,220	\$ 20,518,630	\$ 20,535,648	\$ 17,018
Intergovernmental	17,924,620	17,705,097	17,719,781	14,684
Interest	45,000	37,176	37,176	-
Tuition and fees	2,847,186	2,975,508	2,977,976	2,468
Rent	171,178	151,716	151,716	-
Gifts and donations	2,500	2,747	2,747	-
Customer services	124,300	80,814	80,814	-
Miscellaneous	25,100	18,726	18,726	-
Total revenues	41,159,104	41,490,414	41,524,584	34,170
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	17,760,040	17,721,272	17,721,272	-
Special	4,064,452	3,851,603	3,851,603	-
Vocational	2,158,388	2,138,523	2,138,523	-
Student intervention services	415,852	392,755	392,755	-
Other	578,000	542,413	542,413	-
Support services:				
Pupils	2,303,338	2,337,409	2,337,409	-
Instructional staff	1,959,555	1,842,375	1,842,375	-
Board of education	207,045	212,672	212,672	-
Administration	3,170,826	3,091,075	3,091,075	-
Fiscal	965,652	938,135	938,135	-
Business	368,760	369,855	369,855	-
Operation and maintenance of plant	3,026,829	3,230,981	3,230,981	-
Pupil transportation	1,726,281	1,801,890	1,801,890	-
Central	235,799	235,003	235,003	-
Operation of non-instructional services:				
Community services	102,637	100,448	100,448	-
Extracurricular activities	707,184	673,160	673,160	-
Capital outlay	138,644	183,053	183,053	-
Total expenditures	39,889,282	39,662,622	39,662,622	-
Excess of revenues over (under) expenditures	1,269,822	1,827,792	1,861,962	34,170
<u>Other financing sources (uses):</u>				
Proceeds from sale of fixed assets	1,000	143	143	-
Refund of prior year expenditures	83,732	75,574	75,574	-
Refund of prior year receipts	(6,000)	(271)	(271)	-
Advances in	147,213	147,213	147,213	-
Advances out	(117,500)	(130,497)	(130,497)	-
Transfers out	(619,350)	(587,350)	(587,350)	-
Total other financing sources (uses)	(510,905)	(495,188)	(495,188)	-
Net change in fund balance	758,917	1,332,604	1,366,774	34,170
Fund balance at beginning of year	16,563,741	16,563,741	16,563,741	-
Prior year encumbrances appropriated	442,112	442,112	442,112	-
Fund balance at end of year	\$ 17,764,770	\$ 18,338,457	\$ 18,372,627	\$ 34,170

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2011

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 494,122
Accounts receivable	144,678
Total assets	<u>638,800</u>
<u>Liabilities:</u>	
Claims payable	<u>479,493</u>
<u>Net assets:</u>	
Unrestricted	159,307
Total liabilities and net assets	<u>\$ 638,800</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, 2011

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 3,640,481
Other	77,387
Total operating revenues	<u>3,717,868</u>
<u>Operating expenses:</u>	
Purchased services	465,326
Claims	4,698,637
Total operating expenses	<u>5,163,963</u>
Change in net assets	(1,446,095)
Net assets at beginning of year	1,605,402
Net assets at end of year	<u>\$ 159,307</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2011

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received for charges for services	\$ 3,758,780
Cash payments to suppliers for goods and services	(610,004)
Cash payments for claims	<u>(4,652,847)</u>
Net cash used for operating activities	<u>(1,504,071)</u>
 Net decrease in cash and cash equivalents	 (1,504,071)
 Cash and cash equivalents at beginning of year	 <u>1,998,193</u>
Cash and cash equivalents at end of year	<u>\$ 494,122</u>
 <u>Reconciliation of operating loss to net cash used for operating activities:</u>	
Operating loss	<u>\$ (1,446,095)</u>
 Adjustments to reconcile operating loss to net cash used for operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(103,766)
Increase (decrease) in liabilities:	
Claims payable	45,790
Total adjustments	<u>(57,976)</u>
Net cash used for operating activities	<u>\$ (1,504,071)</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 92,167
Receivables:	
Accounts	400
Total assets	<u>\$ 92,567</u>
<u>Liabilities:</u>	
Accounts payable	\$ 1,926
Due to students	90,641
Total liabilities	<u>\$ 92,567</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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the School District

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 203 non-certificated employees and 390 certificated teaching and support personnel who provide services to 3,496 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, 2011.

The School District is associated with the Northeast Ohio Network for Educational Technology (NEOnet), the Six District Educational Compact, and the Ohio Schools 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 16. In addition, the School District is associated with the Kent Free Library and Kent Digital Academy, which are defined as related organizations, as more fully explained in Note 17.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

A. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Fund Types

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

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

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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 basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue - Exchange and Non-exchange Transactions

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

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 2011, but which were levied to finance fiscal year 2012 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 fund level for all 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 2011. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 certificates of deposit, 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.

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. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. 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.

H. 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.

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.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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>
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	6 - 8 years

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits 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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance classifications are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. 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

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

N. 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.

O. 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.

P. 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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Change in accounting principles

For the fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

B. Restatement of prior year’s fund balance

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	<u>General</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Fund balance at June 30, 2010	\$ 15,994,461	\$ 1,926,177	\$ 17,920,638
Change in fund structure	<u>181,378</u>	<u>(181,378)</u>	<u>-</u>
Adjusted fund balance at July 1, 2010	<u>\$ 16,175,839</u>	<u>\$ 1,744,799</u>	<u>\$ 17,920,638</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 3 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>			
Materials and supplies inventory	\$ 121,487	\$ 14,236	\$ 135,723
Prepays	5,476	-	5,476
Scholarships	-	1,500	1,500
Total nonspendable	<u>126,963</u>	<u>15,736</u>	<u>142,699</u>
<u>Restricted for</u>			
Food service	-	301,511	301,511
Athletics and music	-	91,084	91,084
Auxiliary services	-	7,180	7,180
Endowments	-	1,873	1,873
Special trusts	-	78,137	78,137
Local grants	-	73,431	73,431
Federal grants	-	37,819	37,819
Debt service payments	-	651,601	651,601
Total restricted	<u>-</u>	<u>1,242,636</u>	<u>1,242,636</u>
<u>Assigned</u>			
Uniform school supplies	2,011	-	2,011
Public school support	77,647	-	77,647
Permanent improvements	-	516,784	516,784
Other purposes	4,627,059	-	4,627,059
Total assigned	<u>4,706,717</u>	<u>516,784</u>	<u>5,223,501</u>
Unassigned (deficit)	<u>11,381,185</u>	<u>(276,126)</u>	<u>11,105,059</u>
Total fund balances	<u>\$ 16,214,865</u>	<u>\$ 1,499,030</u>	<u>\$ 17,713,895</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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>
GAAP basis	\$ 39,026
Revenue accruals	2,132,447
Advances in	147,213
Expenditure accruals	(273,422)
Advances out	(130,497)
Budgeted as part of special revenue funds:	
Revenues	(389,757)
Transfers from general fund	(133,000)
Expenditures	445,095
Encumbrances (Budget Basis) outstanding at year end	<u>(470,331)</u>
Budget basis	<u>\$ 1,366,774</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

1. United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;
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, 2011

A. Cash on Hand

At fiscal year-end, the School District had \$1,250 in undeposited cash on hand which is included as part of “equity in pooled cash and cash equivalents”.

B. Deposits

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

As of June 30, the carrying amount of the School District’s deposits was \$1,369,541. The School District’s bank balance of \$1,512,130 was covered by FDIC.

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreements	\$ 18,120,000	Daily	AAA ⁽¹⁾
STAR Ohio	<u>2,129,598</u>	58.3 ⁽³⁾	AAAm ⁽²⁾
	<u>\$ 20,249,598</u>		

⁽¹⁾ Standard and Poor's rating of the underlying investment.

⁽²⁾ Standard and Poor's rating

⁽³⁾ Days (Average)

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, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$31,616, which includes \$3,992 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s \$18,120,000 investment in repurchase agreements is to be secured by the specific securities upon which the repurchase agreements are based. As of June 30, 2011, the underlying investments were Federal National Mortgage Association (FNMA) bonds and Federal Home Loan Mortgage Corporation Bonds (FHLMC). These securities, held by the counterparty and not in the School District’s name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 10 percent of the School District's investments are in FNMA bonds and FHLMC bonds, which are the underlying investment of the repurchase agreement. The School District places no limit on the amount that may be invested in any one issuer. These investments were equal to 89.48% of all investments held by the School District at June 30, 2011.

NOTE 6 - PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2010 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2010 was the last year for the collection of tangible personal property taxes from telephone companies. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay 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 June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011, was \$1,666,621 in the general fund, and \$205,916 in the bond retirement debt service fund. The amount available as an advance at June 30, 2010, was \$3,709,672 in the general fund, and \$421,090 in the bond retirement debt service fund.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

<u>Property Category</u>	<u>2010 Assessed Value</u>	<u>2009 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 359,761,450	\$ 359,539,370
Commercial, industrial and minerals	122,240,010	121,769,600
Public utilities	217,940	213,090
<u>Tangible Personal Property</u>		
General	-	703,355
Public utilities	9,170,120	8,920,070
Total	<u>\$ 491,389,520</u>	<u>\$ 491,145,485</u>

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 and several special revenue funds accounts receivable at year-end consisted of tuition, excess costs and other miscellaneous reimbursements of \$5; 4,273. Also, several special revenue funds recorded intergovernmental receivables for state and federal grants and reimbursements totaling \$354,133. In addition, the general fund reported an intergovernmental receivable for Medicaid reimbursements for \$46,114.

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 1,648,218	\$ -	\$ -	\$ 1,648,218
Construction in progress	<u>146,750</u>	<u>101,099</u>	<u>(146,750)</u>	<u>101,099</u>
Total capital assets, not being depreciated	<u>1,794,968</u>	<u>101,099</u>	<u>(146,750)</u>	<u>1,749,317</u>
Capital assets, being depreciated:				
Land improvements	465,370	-	-	465,370
Buildings and improvements	38,826,874	146,750	-	38,973,624
Furniture, fixtures and equipment	2,376,171	110,769	-	2,486,940
Vehicles	<u>2,786,569</u>	<u>338,256</u>	<u>(198,888)</u>	<u>2,925,937</u>
Total capital assets, being depreciated	<u>44,454,984</u>	<u>595,775</u>	<u>(198,888)</u>	<u>44,851,871</u>
Less: Accumulated depreciation				
Land improvements	(215,337)	(23,182)	-	(238,519)
Buildings and improvements	(14,758,616)	(785,270)	-	(15,543,886)
Furniture, fixtures and equipment	(1,837,684)	(88,367)	-	(1,926,051)
Vehicles	<u>(2,026,341)</u>	<u>(205,370)</u>	<u>198,888</u>	<u>(2,032,823)</u>
Total accumulated depreciation	<u>(18,837,978)</u>	<u>(1,102,189)</u>	<u>198,888</u>	<u>(19,741,279)</u>
Total capital assets being depreciated, net	<u>25,617,006</u>	<u>(506,414)</u>	<u>-</u>	<u>25,110,592</u>
Governmental activities capital assets, net	<u>\$ 27,411,974</u>	<u>\$ (405,315)</u>	<u>\$ (146,750)</u>	<u>\$ 26,859,909</u>

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 695,146
Special	421
Vocational	12,105
Support services:	
Instructional staff	3,631
Administration	9,901
Fiscal	1,340
Business	8,480
Operation and maintenance of plant	138,456
Pupil transportation	195,354
Central	1,448
Food service operations	5,186
Extracurricular activities	<u>30,721</u>
Total depreciation expense	<u>\$ 1,102,189</u>

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2011 consisted of the following:

Due to general fund from:	
Nonmajor governmental funds	\$ 16,997

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2011, all interfund loans outstanding are anticipated to be repaid in fiscal year 2012.

B. Transfers at June 30, 2011 consisted of the following:

Transfers to nonmajor governmental funds from:	
General fund	\$ 454,350

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.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability Insurance

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

B. Employee Medical Benefits

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$479,493, 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 2010 and 2011 were:

	Year ended <u>6/30/2010</u>	Year ended <u>6/30/2011</u>
Unpaid claims, beginning of fiscal year	\$ 400,214	\$ 433,703
Incurred claims (including IBNRs)	3,652,667	4,698,637
Claim payments	<u>(3,619,178)</u>	<u>(4,652,847)</u>
Unpaid claims, end of fiscal year	<u>\$ 433,703</u>	<u>\$ 479,493</u>

C. Worker’s Compensation

The School District participates in an insurance group rating program. The group rating program allows school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers. The School District pays the State Bureau of Worker’s Compensation a premium based on a rate per \$100 of salaries.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on SERS’ website at www.ohsers.org under employers/audit resources.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the system. For fiscal year 2010, 11.81 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$780,406, \$921,277 and \$573,044 respectively; 54.55 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$3,154,038, \$3,055,758, and \$2,896,266 respectively; 83.3 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$123,252 made by the School District and \$88,037 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$151,050, \$121,841, and \$347,026 respectively; 32.26 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$50,221, \$54,786, and \$47,281 respectively; 45.5 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$242,618, \$235,058, and \$222,790 respectively; 83.3 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 13 - STATUTORY RESERVES

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. The following information describes the change in the year-end set-aside amounts for textbooks and capital maintenance.

	Textbook <u>Reserve</u>	Capital Maintenance <u>Reserve</u>
Set-aside cash balance as of June 30, 2010	\$ (1,283,750)	\$ -
Current year set-aside requirement	520,162	520,162
Qualifying disbursements	<u>(560,113)</u>	<u>(1,815,516)</u>
Total	<u>\$ (1,323,701)</u>	<u>\$ (1,295,354)</u>
Balance carried forward to future years	<u>\$ -</u>	<u>\$ -</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to \$(1,323,701) for the textbook set-aside. Effective July 1, 2011, the textbook set aside is no longer required as the obligation was repealed by the 129th General Assembly in Amended Substitute House Bill 30. This balance is therefore not presented as being carried forward to a future fiscal year. Although the School District had qualifying disbursements and current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
1998 School improvement bonds,					
Capital appreciation bonds	\$ 43,865	\$ -	\$ (43,865)	\$ -	\$ -
Accretion on bonds	99,058	7,077	(106,135)	-	-
2004 Library bonds					
Serial and term bonds	10,950,000	-	(435,000)	10,515,000	445,000
Capital appreciation bonds	239,996	-	-	239,996	-
Accretion on bonds	118,389	23,743	-	142,132	-
Premium	111,852	-	(10,564)	101,288	-
2004 School improvement refunding					
Serial and term bonds	11,475,000	-	(875,000)	10,600,000	895,000
Capital appreciation bonds	49,999	-	-	49,999	-
Accretion on bonds	211,737	91,987	-	303,724	-
Premium	703,321	-	(108,224)	595,097	-
Unamortized deferred cost of refunding	(610,855)	-	93,996	(516,859)	-
2007 Refunding bonds					
Serial and term bonds	1,715,000	-	(40,000)	1,675,000	190,000
Capital appreciation bonds	364,996	-	-	364,996	-
Accretion on bonds	73,473	33,509	-	106,982	-
Premium	70,140	-	(11,080)	59,060	-
Total Bonds	<u>25,615,971</u>	<u>156,316</u>	<u>(1,535,872)</u>	<u>24,236,415</u>	<u>1,530,000</u>
<u>Other Obligations</u>					
Compensated absences	2,944,055	702,272	(664,858)	2,981,469	698,968
Capital leases payable	1,316,477	-	(135,449)	1,181,028	142,053
Total other liabilities	<u>4,260,532</u>	<u>702,272</u>	<u>(800,307)</u>	<u>4,162,497</u>	<u>841,021</u>
Governmental activities long-term liabilities	<u>\$ 29,876,503</u>	<u>\$ 858,588</u>	<u>\$ (2,336,179)</u>	<u>\$ 28,398,912</u>	<u>\$ 2,371,021</u>

<u>General Obligation Bonds</u>	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
1998 School improvement	\$ 3,499,998	5.10%	12/1/2021
2004 Library	13,500,000	2.75 - 5.00%	12/1/2028
2004 School improvement refunding	13,629,999	3.25%	12/1/2021
2007 Refunding	2,149,996	3.625 - 4.25%	12/1/2021

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

During fiscal year 2008, the School District issued \$2,149,996 in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 3.625-4.25%. The bonds were used to refund \$2,150,000 of outstanding 1998 School Improvement Bonds with an average interest rate of 5.1%. The final amounts of the 2007 capital appreciation bonds were \$610,000. The bond proceeds consisted of bond principal and \$104,530 of premium. The net proceeds of \$2,193,876 (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 1998 School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was not significant as the old debt was called and redeemed prior to the issuance of this report. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

During the 1998 fiscal year, 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 bonds on behalf of the Kent Free Library. Finally, during fiscal year 2005 the School District issued school improvement refunding bonds. All of these bond issues (including the ones issued in 2007) include serial and capital appreciation bonds. Current year additions amounted to \$7,077, \$23,743, \$91,987, and \$33,509 respectively, which represent the accretion of discounted interest. The final amounts including accreted interest of the 1998, 2004 library bonds and 2004 refunding capital appreciation bonds will be \$450,000, \$510,000, and \$1,015,000 respectively.

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

Other Obligations: Compensated absences are typically paid from the fund from which the employee is paid when possible. However, compensated absence obligations have primarily been paid from the general fund in prior years. In prior years, capital lease obligations were typically paid from the general fund.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Principal and interest requirements to amortize all bonds outstanding at June 30, 2011 are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,530,000	\$ 994,456	\$ 2,524,456
2013	1,565,000	941,363	2,506,363
2014	1,558,660	953,203	2,511,863
2015	662,515	1,888,585	2,551,100
2016	1,358,816	1,167,328	2,526,144
2017-2021	9,675,000	2,770,556	12,445,556
2022-2026	4,795,000	906,862	5,701,862
2027-2029	2,300,000	140,887	2,440,887
Total	<u>\$ 23,444,991</u>	<u>\$ 9,763,240</u>	<u>\$ 33,208,231</u>

NOTE 15 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a previous fiscal year, the School District entered into capitalized lease agreements for the acquisition of copiers and a district-wide energy conservation project. These leases meet the criteria of capital leases as defined by the Financial Accounting Standards Board's Accounting Standards Codification 840 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 the lease have been capitalized as equipment in the amount of \$1,685,122. 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 \$135,449.

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.

<u>Fiscal</u> <u>Year</u>	<u>Lease</u> <u>Payments</u>
2012	\$ 191,274
2013	155,005
2014	136,025
2015	128,201
2016	128,201
2017-2021	641,004
2022	<u>82,831</u>
Total minimum lease payments	1,462,541
Less: amount representing interest	<u>(281,513)</u>
Total	<u>\$ 1,181,028</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

The Northeast Ohio Network for Educational Technology (NEOnet) is the Computer Service Organization or Information Technology Center (ITC) 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 Metropolitan Regional Service Council 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. During fiscal year 2011, the School District contributed \$98,762 to NEOnet. This contribution includes purchases of software and related items as well as payment for services. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

The Six District Educational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. During fiscal year 2011, the School District contributed a nominal amount to the Six District Educational Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

The Ohio Schools Council Association (Council) is a jointly governed organization among 157 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2011 the School District paid \$215,997 to the Council in the form of gas purchases. Financial information can be obtained by contacting David Cottrell, the Executive Directive/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

NOTE 17 - 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 which must be approved by the School District.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

During fiscal year 2011, the School District provided educational management information systems coordinating services and other administrative services to the Kent Digital Academy. As of June 30, 2011, the School District has not received their final payment for these services. 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 18 - 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, 2011.

NOTE 19 – ACCOUNTABILITY

As of June 30, 2011, several special revenue funds had deficit fund balances. 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:

Fund	Amount
Alternative schools	\$ 743
Education jobs	2,784
Title VI-B	108,638
Title II-D	14,058
Title I	110,203
EHA preschool grant	7,506
Improving teacher quality	32,194



December 16, 2011

The Board of Education
Kent City School District, Ohio
321 North Depeyster Street
Kent, Ohio 44240

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City School District (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Kent City School District
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards
December 16, 2011
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Rea & Associates, Inc.



December 16, 2011

The Board of Education
Kent City School District
321 North Depeyster Street
Kent, Ohio 44240

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Compliance

We have audited the compliance of Kent City School District (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Rea & Associates, Inc.

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Program Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program (A)	2011	10.553	\$ 201,248	\$ 201,248
National School Lunch Program (A)	2011	10.555	557,804	557,804
Food Commodity Distribution (B)	2011	10.550	59,898	59,898
Total Child Nutrition Cluster			<u>818,950</u>	<u>818,950</u>
Child Nutrition Discretionary Grants	2011	10.579	6,285	6,285
Total U.S. Department of Agriculture			<u>825,235</u>	<u>825,235</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	2010	84.027	3,808	89,047
	2011	84.027	820,360	763,920
ARRA - Special Education - Grants to States (IDEA Part B)	2010	84.391	2,623	71,432
	2011	84.391	396,276	394,312
Total Special Education - Grants to States (IDEA Part B)			<u>1,223,067</u>	<u>1,318,711</u>
Special Education - Preschool Grants	2010	84.173	2,306	3,981
	2011	84.173	24,630	24,534
ARRA - Special Education - Preschool Grants	2010	84.392	(4,606)	8
	2011	84.392	12,395	10,849
Total Special Education - Preschool Grants			<u>34,725</u>	<u>39,372</u>
Total Special Education Cluster			1,257,792	1,358,083
Grants to Local Educational Agencies (Title I)	2010	84.010	145,412	123,967
	2011	84.010	677,810	679,954
ARRA - Grants to Local Educational Agencies (Title I)	2010	84.389	(22,242)	17,051
	2011	84.389	172,605	171,998
Total Grants to Local Educational Agencies (Title I) Cluster			<u>973,585</u>	<u>992,970</u>
Safe and Drug Free Schools (Title IV-A)	2010	84.186	576	1,952
	2011	84.186	7,628	4,707
Total Safe and Drug Free Schools (Title IV-A)			<u>8,204</u>	<u>6,659</u>
Technology Literacy Quality State Grants (Title II-D)	2010	84.318	4,443	2,149
	2011	84.318	2,487	2,007
ARRA - Technology Literacy Quality State Grants (Title II-D)	2011	84.386	210,149	208,368
Total Technology Literacy Quality State Grants (Title II-D)			<u>217,079</u>	<u>212,524</u>
English Language Acquisition Grants (Title III)	2010	84.365	(1,157)	53
	2011	84.365	9,514	8,331
Total English Language Acquisition Grants (Title III)			<u>8,357</u>	<u>8,384</u>
Improving Teacher Quality State Grants (Title II-A)	2010	84.367	32,095	60,695
	2011	84.367	195,323	194,558
Total Improving Teacher Quality State Grants (Title II-A)			<u>227,418</u>	<u>255,253</u>
ARRA - State Fiscal Stabilization Fund	2010	84.394	0	138,385
	2011	84.394	1,020,605	831,637
Total ARRA - State Fiscal Stabilization Fund			<u>1,020,605</u>	<u>970,022</u>
ARRA - Race to the Top	2011	84.395	48,063	43,426
Consolidated Admin (reimbursement)	2011	XX.XXX	298	298
<i>Passed Through Summit County Educational Service Center:</i>				
Foreign Lang Assist Prog-FLAP	2011	84.293	2,953	2,953
<i>Passed Through Six District Educational Compact:</i>				
Vocational Education - Basic Grants to State		84.048	71,024	71,024
Total U.S. Department of Education			<u>3,835,378</u>	<u>3,921,596</u>
Totals			<u>\$ 4,660,613</u>	<u>\$ 4,746,831</u>

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

Kent City School District
Portage County, Ohio
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2011

Note A - Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note B – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

CFDA Number	Program Title	Program Year	Transfers Out	Transfers In
84.010	Title I	2010	\$14,948	
84.010	Title I	2011		\$14,948
84.389	ARRA - Title I	2010	257,803	
84.389	ARRA - Title I	2011		257,803
84.318	Technology Literacy Quality State Grants (Title II-D)	2010	2,126	
84.318	Technology Literacy Quality State Grants (Title II-D)	2011		2,126
84.365	English Language Acquisition Grants (Title III)	2010	13,269	
84.365	English Language Acquisition Grants (Title III)	2011		13,269
84.186	Safe and Drug-Free Schools (Title IV-A)	2010	8,096	
84.186	Safe and Drug-Free Schools (Title IV-A)	2011		8,096
84.027	Special Education - Grants to States (IDEA Part B)	2010	110,451	
84.027	Special Education - Grants to States (IDEA Part B)	2011		110,451
84.391	ARRA - Special Education - Grants to States (IDEA Part B)	2010	467,282	
84.391	ARRA - Special Education - Grants to States (IDEA Part B)	2011		467,282
84.392	ARRA - Special Education - Preschool Grants	2010	12,395	
84.392	ARRA - Special Education - Preschool Grants	2011		12,395

**KENT CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2011**

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 significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were 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 significant deficiencies 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 Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I #84.010, 84.389 IDEA-B # 84.027, 84.391, 84.173, 84.392 State Fiscal Stabilization #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Independent Accountant's Report on Applying Agreed-Upon Procedure

December 16, 2011

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on December 14, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

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
JANUARY 31, 2012**