



Mary Taylor, CPA
Auditor of State

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Kent City School District
Portage County
321 North Depeyster Street
Kent, Ohio 44250

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kent City School District, Portage County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Kent City School District, Portage County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

February 13, 2007

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. 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 2006 are as follows:

- During the fiscal year, the School District sold a portion of their land which resulted in a gain of \$195,401.
- Net assets of governmental activities increased by \$1,879,052 from 2005.
- General revenues accounted for \$37,016,077 in revenue or 84.4 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$7,211,403 or 16.3 percent of total revenues of \$44,227,480.
- The School District had \$42,348,428 in expenses related to governmental activities; only \$7,211,403 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$37,016,077 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$9,475,818, an increase of \$980,585 from 2005.

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, 2006
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 2006?" 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, 2006
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 2006 compared to 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Assets		
<i>Current and other assets</i>	\$ 38,123,483	\$ 37,056,251
<i>Capital assets, net of depreciation</i>	<u>28,379,034</u>	<u>28,892,502</u>
<i>Total assets</i>	<u>66,502,517</u>	<u>65,948,753</u>
Liabilities		
<i>Current and other liabilities</i>	24,337,588	24,497,873
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	1,454,656	2,012,581
<i>Due in more than one year</i>	<u>32,075,422</u>	<u>32,682,500</u>
<i>Total liabilities</i>	<u>57,867,666</u>	<u>59,192,954</u>
Net Assets		
<i>Invested in capital assets, net of related debt</i>	10,361,185	10,007,818
<i>Restricted</i>	1,913,079	1,759,956
<i>Unrestricted</i>	<u>(3,639,413)</u>	<u>(5,011,975)</u>
<i>Total net assets</i>	<u>\$ 8,634,851</u>	<u>\$ 6,755,799</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the School District's assets exceeded liabilities by \$8,634,851, an increase of \$1,879,052 from net assets at June 30, 2005.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2006. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$1,913,079 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$937,427 is restricted for debt service payments; \$465,353 is restricted for capital projects; and \$510,299 is restricted for other purposes. Unrestricted net assets report a deficit fund balance of (\$3,639,413) because of the School District's requirement to issue debt for the Kent Free Library. If this requirement did not exist, unrestricted net assets would be \$9,351,147 and could be used to meet the government's ongoing obligations to students and staff.

Kent City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 2 shows change in net assets for fiscal years 2005 and 2006.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 3,718,421	\$ 3,472,111
<i>Operating grants, contributions and interest</i>	3,480,704	3,419,237
<i>Capital grants and contributions</i>	12,278	19,169
<i>General revenues:</i>		
<i>Property taxes</i>	21,539,280	23,128,480
<i>Grants and entitlements</i>	14,546,668	14,553,957
<i>Investment earnings</i>	696,584	345,911
<i>Gain on sale of capital asset</i>	195,401	-
<i>Miscellaneous</i>	38,144	30,033
<i>Total revenues</i>	<u>44,227,480</u>	<u>44,968,898</u>
Program Expenses		
<i>Instruction:</i>		
<i>Regular</i>	17,140,167	16,594,379
<i>Special</i>	3,951,275	4,193,968
<i>Vocational</i>	1,970,988	1,983,525
<i>Adult/continuing</i>	73,429	102,870
<i>Other</i>	1,083,963	360,740
<i>Support services:</i>		
<i>Pupils</i>	1,981,969	2,007,162
<i>Instructional staff</i>	2,892,356	2,841,924
<i>Board of education</i>	215,648	206,677
<i>Administration</i>	2,846,007	2,905,620
<i>Fiscal</i>	899,107	875,219
<i>Business</i>	297,547	471,906
<i>Operation and maintenance of plant</i>	3,141,711	3,234,915
<i>Pupil transportation</i>	1,423,705	1,309,046
<i>Central</i>	322,924	284,093
<i>Operation of non-instructional services:</i>		
<i>Food service operations</i>	1,185,851	1,079,292
<i>Community services</i>	485,044	411,482
<i>Extracurricular activities</i>	973,256	926,524
<i>Interest and fiscal charges</i>	1,459,073	1,560,292
<i>Intergovernmental</i>	4,408	5,000
<i>Total expenses</i>	<u>42,348,428</u>	<u>41,354,634</u>
<i>Change in net assets</i>	1,879,052	3,614,264
<i>Net assets at beginning of year</i>	<u>6,755,799</u>	<u>3,141,535</u>
<i>Net assets at end of year</i>	<u>\$ 8,634,851</u>	<u>\$ 6,755,799</u>

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$21.5 million in 2006, representing an decrease of \$1,589,200 over 2005. The decrease in property taxes represents the amount estimated for the decline in tangible property taxes that is not being collected. General revenues from grants and entitlements, such as the school foundation program, generated over \$14.5 million. With the combination of taxes and intergovernmental funding comprising approximately 81.6% 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 \$24,219,822, or 57.2% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$4,874,325, or 11.5% 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 \$4,258,309, or 10.1% 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 \$3,141,711 made up 7.4% 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 \$12,990,560, which includes the principal, accretion and premium associated with this debt. This amount related to this debt should be considered as it is the reason the School District is reporting a significant deficit balance in unrestricted net assets.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2005 and 2006. 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, 2006
 Unaudited

Table 3
 Governmental Activities

	<i>Total Cost of Services <u>2006</u></i>	<i>Total Cost of Services <u>2005</u></i>	<i>Net Cost of Services <u>2006</u></i>	<i>Net Cost of Services <u>2005</u></i>
Program Expenses				
<i>Instruction:</i>				
Regular	\$ 17,140,167	\$ 16,594,379	\$ (15,001,753)	\$ (14,587,402)
Special	3,951,275	4,193,968	(2,745,203)	(2,953,085)
Vocational	1,970,988	1,983,525	(1,345,084)	(1,370,204)
Adult/continuing	73,429	102,870	5,604	(5,115)
Other	1,083,963	360,740	(837,475)	(360,740)
<i>Support services:</i>				
Pupils	1,981,969	2,007,162	(1,809,231)	(1,810,000)
Instructional staff	2,892,356	2,841,924	(2,314,231)	(2,074,120)
Board of education	215,648	206,677	(215,648)	(206,677)
Administration	2,846,007	2,905,620	(2,721,208)	(2,830,696)
Fiscal	899,107	875,219	(899,107)	(875,219)
Business	297,547	471,906	(297,547)	(367,335)
Operation and maintenance of plant	3,141,711	3,234,915	(3,083,935)	(3,180,538)
Pupil transportation	1,423,705	1,309,046	(1,331,397)	(1,265,452)
Central	322,924	284,093	(241,151)	(180,484)
<i>Operation non-instructional services:</i>				
Food service operations	1,185,851	1,079,292	29,559	(2,558)
Community services	485,044	411,482	(128,600)	(106,983)
Extracurricular activities	973,256	926,524	(737,137)	(702,217)
Interest and fiscal charges	1,459,073	1,560,292	(1,459,073)	(1,560,292)
Intergovernmental	4,408	5,000	(4,408)	(5,000)
Total	<u>\$ 42,348,428</u>	<u>\$ 41,354,634</u>	<u>\$ (35,137,025)</u>	<u>\$ (34,444,117)</u>

The dependence upon tax revenues for governmental activities is apparent with only 17.0% 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 \$43,870,732 and total expenditures are \$43,086,451. The total net change in fund balance across all governmental funds was an increase of \$980,585. Net increase in fund balance for the year was significant in the general fund, amounting to \$841,206 or 12.7%. The increase is largely attributable to a decrease in transfers out to other nonmajor governmental funds as compared to the previous year. Net increases across all other nonmajor governmental funds amounted to \$139,379, or 7.5%.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

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

During fiscal year 2006, 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 \$37,358,460, which was slightly higher than the original budget estimate of \$36,012,189. This difference of \$1,346,271, or 3.7%, is considered insignificant. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized.

The original expenditures and other financing uses estimate of \$36,417,568 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$36,577,497, or \$159,929 lower, which is considered insignificant. No significant expenditure budget revisions were posted to the general fund during the year. Even though the School District became aware of unexpected revenues, there was no intention of spending these additional revenues in any specific area.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$28,379,034 invested in capital assets. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

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

	<i>Governmental Activities</i>	
	<i>2006</i>	<i>2005</i>
<i>Land</i>	\$ 1,648,218	\$ 1,449,535
<i>Land improvements</i>	332,505	332,871
<i>Buildings and improvements</i>	25,386,836	25,872,130
<i>Furniture, fixtures and equipment</i>	255,201	382,134
<i>Vehicles</i>	<u>756,274</u>	<u>855,832</u>
<i>Total capital assets</i>	<u>\$ 28,379,034</u>	<u>\$ 28,892,502</u>

The most significant capital expenditures by the School District during the year were for the purchase of land totaling \$205,933 and capital building improvements for \$224,929. The total decrease in capital assets is due to depreciation expense of \$1,109,355 exceeding current year acquisitions of \$603,137. See Note 6 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 \$2,447,701 have a book value of only \$756,274. This indicates that the vehicles, in total, are reported at approximately 31% or nearly two-thirds depreciated.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Debt

At June 30, 2006 the School District had general obligation bonds outstanding of \$30,600,509, with \$834,751 due within one year. Also, the School District has capital lease obligations of \$559,950, with \$162,314 due within one year. The outstanding bond balance reflects a net decrease of \$1,077,871 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, 2006, the School District's overall legal debt limit was \$43,295,924, with a voted debt limit of \$14,079,744 and an unvoted debt limit of \$481,066. See Note 12 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.

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

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

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

Contacting the School District's Financial Management

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

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Kent City School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 14,733,528
Cash and cash equivalents:	
In segregated accounts	31,894
Inventory held for resale	12,708
Materials and supplies inventory	144,116
Deferred charges	269,870
Receivables:	
Accounts	264,387
Intergovernmental	142,214
Accrued interest	118,379
Taxes	22,406,387
Capital assets:	
Land	1,648,218
Depreciable capital assets, net	26,730,816
Total capital assets	<u>28,379,034</u>
Total assets	<u>66,502,517</u>
<u>Liabilities:</u>	
Accounts payable	185,753
Accrued wages	2,798,991
Intergovernmental payable	1,318,279
Undistributed monies	6,454
Accrued interest payable	103,152
Claims payable	299,912
Deferred revenue	19,625,047
Long-term liabilities:	
Due within one year	1,454,656
Due in more than one year	32,075,422
Total liabilities	<u>57,867,666</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	10,361,185
Restricted for:	
Capital projects	465,353
Debt service	937,427
Other purposes	510,299
Unrestricted	<u>(3,639,413)</u>
Total net assets	<u>\$ 8,634,851</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenues and Changes in Net Assets
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 17,140,167	\$ 1,778,980	\$ 359,434	\$ -	\$ (15,001,753)
Special	3,951,275	148,146	1,057,926	-	(2,745,203)
Vocational	1,970,988	607,230	18,674	-	(1,345,084)
Adult/continuing	73,429	50,512	28,521	-	5,604
Other	1,083,963	-	246,488	-	(837,475)
Support services:					
Pupils	1,981,969	10,000	162,738	-	(1,809,231)
Instructional staff	2,892,356	46,172	531,953	-	(2,314,231)
Board of education	215,648	-	-	-	(215,648)
Administration	2,846,007	-	124,799	-	(2,721,208)
Fiscal	899,107	-	-	-	(899,107)
Business	297,547	-	-	-	(297,547)
Operation and maintenance of plant	3,141,711	57,776	-	-	(3,083,935)
Pupil transportation	1,423,705	73,079	6,951	12,278	(1,331,397)
Central	322,924	344	81,429	-	(241,151)
Operation of non-instructional services:					
Food service operations	1,185,851	589,645	625,765	-	29,559
Community services	485,044	120,418	236,026	-	(128,600)
Extracurricular activities	973,256	236,119	-	-	(737,137)
Interest and fiscal charges	1,459,073	-	-	-	(1,459,073)
Intergovernmental	4,408	-	-	-	(4,408)
Total governmental activities	<u>\$ 42,348,428</u>	<u>\$ 3,718,421</u>	<u>\$ 3,480,704</u>	<u>\$ 12,278</u>	<u>(35,137,025)</u>

General Revenues:

Property taxes levied for:

General purposes	19,271,963
Debt service	2,267,317
Grants and entitlements not restricted to specific programs	14,546,668
Investment earnings	696,584
Gain on sale of capital asset	195,401
Miscellaneous	38,144

Total general revenues 37,016,077

Change in net assets 1,879,052

Net assets at beginning of year 6,755,799

Net assets at end of year \$ 8,634,851

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 9,647,095	\$ 2,091,229	\$ 11,738,324
Cash and cash equivalents:			
In segregated accounts	-	31,894	31,894
Inventory held for resale	-	12,708	12,708
Materials and supplies inventory	139,809	4,307	144,116
Receivables:			
Accounts	217,010	3,179	220,189
Intergovernmental	3,174	139,040	142,214
Accrued interest	118,312	67	118,379
Interfund	10,000	-	10,000
Taxes	20,001,463	2,404,924	22,406,387
Total assets	<u>\$ 30,136,863</u>	<u>\$ 4,687,348</u>	<u>\$ 34,824,211</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 55,303	\$ 130,450	\$ 185,753
Accrued wages	2,574,160	224,831	2,798,991
Interfund payable	-	10,000	10,000
Intergovernmental payable	1,237,077	81,202	1,318,279
Deferred revenue	18,798,454	2,230,462	21,028,916
Undistributed monies	6,454	-	6,454
Total liabilities	<u>22,671,448</u>	<u>2,676,945</u>	<u>25,348,393</u>
<u>Fund balances:</u>			
Reserved for encumbrances	412,379	486,297	898,676
Reserved for property taxes	1,402,440	183,136	1,585,576
Unreserved,			
Undesignated, reported in:			
General fund	5,650,596	-	5,650,596
Special revenue funds	-	457,871	457,871
Debt service fund	-	746,783	746,783
Capital projects funds	-	136,316	136,316
Total fund balances	<u>7,465,415</u>	<u>2,010,403</u>	<u>9,475,818</u>
Total liabilities and fund balances	<u>\$ 30,136,863</u>	<u>\$ 4,687,348</u>	<u>\$ 34,824,211</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, 2006

Total governmental fund balances		\$ 9,475,818
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,379,034
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,195,764	
Intergovernmental	8,674	
Tuition and fees	<u>199,431</u>	
		1,403,869
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		2,739,490
Deferred charges are included in the governmental activities in the statement of net assets.		269,870
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(103,152)
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	\$ (28,430,000)	
Capital appreciation, including accretion	(1,852,393)	
Premium	(1,374,043)	
Unamortized cost of refunding	1,055,927	
Compensated absences	(2,369,619)	
Capital leases	(559,950)	
Total	<u>(33,530,078)</u>	<u>(33,530,078)</u>
Net assets of governmental activities		<u>\$ 8,634,851</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, 2006

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 19,168,067	\$ 2,256,503	\$ 21,424,570
Intergovernmental	14,313,182	3,597,919	17,911,101
Interest	694,577	5,343	699,920
Tuition and fees	2,196,013	214,520	2,410,533
Extracurricular activities	-	292,220	292,220
Gifts and donations	14,286	69,486	83,772
Customer services	104,241	689,162	793,403
Rent	57,777	21,678	79,455
Miscellaneous	37,244	138,514	175,758
Total revenues	<u>36,585,387</u>	<u>7,285,345</u>	<u>43,870,732</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	15,711,581	589,896	16,301,477
Special	3,045,349	910,478	3,955,827
Vocational	1,934,889	46,615	1,981,504
Adult/Continuing	-	73,429	73,429
Other	850,576	227,425	1,078,001
Support services:			
Pupils	1,778,299	188,899	1,967,198
Instructional staff	2,149,623	666,401	2,816,024
Board of education	215,648	-	215,648
Administration	2,777,179	140,332	2,917,511
Fiscal	832,758	39,352	872,110
Business	313,732	-	313,732
Operation and maintenance of plant	3,039,197	107,248	3,146,445
Pupil transportation	1,200,894	22,589	1,223,483
Central	265,797	55,872	321,669
Operation of non-instructional services:			
Food service operations	-	1,193,640	1,193,640
Community services	139,263	345,715	484,978
Extracurricular activities	646,893	298,597	945,490
Capital outlay	143,476	459,661	603,137
Intergovernmental	-	4,408	4,408
Debt service:			
Principal retirement	156,444	1,260,000	1,416,444
Interest and fiscal charges	25,033	1,229,263	1,254,296
Total expenditures	<u>35,226,631</u>	<u>7,859,820</u>	<u>43,086,451</u>
Excess of revenues over (under) expenditures	<u>1,358,756</u>	<u>(574,475)</u>	<u>784,281</u>
<u>Other financing sources (uses):</u>			
Proceeds from sale of capital assets	-	196,304	196,304
Transfers in	-	518,870	518,870
Transfers out	(517,550)	(1,320)	(518,870)
Total other financing sources (uses)	<u>(517,550)</u>	<u>713,854</u>	<u>196,304</u>
Net change in fund balances	841,206	139,379	980,585
Fund balances at beginning of year	6,624,209	1,871,024	8,495,233
Fund balances at end of year	<u>\$ 7,465,415</u>	<u>\$ 2,010,403</u>	<u>\$ 9,475,818</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, 2006

Net change in fund balances - total governmental funds	\$ 980,585
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital asset additions	\$ 603,137
Depreciation expense	<u>(1,109,355)</u>
Excess of capital outlay over depreciation expense	(506,218)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal	(7,250)
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	\$ 114,710
Intergovernmental	8,674
Tuition and fees	<u>37,060</u>
Net change in deferred revenues during the year	160,444
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,260,000
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	156,444
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	\$ (69,312)
Decrease in accrued interest	3,848
Decrease in deferred charges	(26,496)
Amortization of premium	149,606
Amortization of cost of refunding	(119,024)
Bond accretion	<u>(212,711)</u>
Total additional expenditures	(274,089)
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	<u>109,136</u>
Change in net assets of governmental activities	<u><u>\$ 1,879,052</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual - General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Taxes	\$ 19,067,864	\$ 19,578,996	\$ 19,578,996	\$ -
Intergovernmental	13,996,554	14,314,535	14,314,535	-
Interest	676,454	676,455	679,301	2,846
Tuition and fees	1,949,911	2,197,628	2,197,628	-
Rent	50,470	51,818	51,818	-
Gifts and donations	14,286	14,286	14,286	-
Customer services	121,200	104,162	104,162	-
Miscellaneous	17,700	37,553	37,553	-
Total revenues	<u>35,894,439</u>	<u>36,975,433</u>	<u>36,978,279</u>	<u>2,846</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	15,941,976	15,669,283	15,669,282	1
Special	3,199,566	3,067,516	3,067,516	-
Vocational	2,015,591	1,924,898	1,924,899	(1)
Other	472,455	809,444	809,444	-
Support services:				
Pupils	1,901,863	1,837,510	1,837,510	-
Instructional staff	2,093,200	2,151,865	2,151,864	1
Board of education	231,825	215,586	215,585	1
Administration	2,778,690	2,942,374	2,942,373	1
Fiscal	843,053	843,003	843,005	(2)
Business	378,468	438,026	438,026	-
Operation and maintenance of plant	3,159,519	3,201,334	3,201,333	1
Pupil transportation	1,450,432	1,410,983	1,410,984	(1)
Central	259,005	280,118	280,118	-
Operation of non-instructional services:				
Community services	144,286	141,396	141,396	-
Extracurricular activities	712,166	664,725	664,725	-
Capital outlay	185,957	186,815	186,815	-
Total expenditures	<u>35,768,052</u>	<u>35,784,876</u>	<u>35,784,875</u>	<u>1</u>
Excess of revenues over (under) expenditures	<u>126,387</u>	<u>1,190,557</u>	<u>1,193,404</u>	<u>2,847</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of fixed assets	-	13	13	-
Refund of prior year expenditures	6,500	7,404	7,404	-
Refund of prior year receipts	(10,500)	(711)	(711)	-
Advances in	111,250	111,250	111,250	-
Advances out	(10,000)	(10,000)	(10,000)	-
Transfers in	-	264,360	-	(264,360)
Transfers out	(629,016)	(781,910)	(517,550)	264,360
Total other financing sources (uses)	<u>(531,766)</u>	<u>(409,594)</u>	<u>(409,594)</u>	<u>-</u>
Net change in fund balance	(405,379)	780,963	783,810	2,847
Fund balance at beginning of year	7,950,777	7,950,777	7,950,777	-
Prior year encumbrances appropriated	448,371	448,371	448,371	-
Fund balance at end of year	<u>\$ 7,993,769</u>	<u>\$ 9,180,111</u>	<u>\$ 9,182,958</u>	<u>\$ 2,847</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2006

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 2,995,204
Accounts receivable	44,198
Total assets	<u>3,039,402</u>
<u>Liabilities:</u>	
Claims payable	<u>299,912</u>
<u>Net assets:</u>	
Unrestricted	<u>2,739,490</u>
Total liabilities and net assets	<u>\$ 3,039,402</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, 2006

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 3,575,453
Other	24,511
Total operating revenues	<u>3,599,964</u>
<u>Operating expenses:</u>	
Purchased services	437,821
Claims	<u>3,053,007</u>
Total operating expenses	<u>3,490,828</u>
Operating income	<u>109,136</u>
Change in net assets	109,136
Net assets at beginning of year	<u>2,630,354</u>
Net assets at end of year	<u>\$ 2,739,490</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, 2006

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received for charges for services	\$ 3,614,003
Cash payments to suppliers for goods and services	(482,019)
Cash payments for claims	<u>(3,036,550)</u>
Net cash provided by operating activities	<u>95,434</u>
 Net increase in cash and cash equivalents	 95,434
 Cash and cash equivalents at beginning of year	 <u>2,899,770</u>
Cash and cash equivalents at end of year	<u>\$ 2,995,204</u>
 Reconciliation of operating income to net cash <u>provided by operating activities:</u>	
Operating income	<u>\$ 109,136</u>
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(30,159)
Increase (decrease) in liabilities:	
Claims payable	16,457
Total adjustments	<u>(13,702)</u>
Net cash provided by operating activities	<u>\$ 95,434</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 74,127
Total assets	<u>\$ 74,127</u>
<u>Liabilities:</u>	
Accounts payable	\$ 1,081
Due to students	<u>73,046</u>
Total liabilities	<u>\$ 74,127</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, 2006

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 232 non-certificated employees and 358 certificated teaching and support personnel who provide services to 3,552 students and other community members.

Reporting Entity

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

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

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2006.

The School District is associated with the Northeast Ohio Network for Educational Technology (NEOnet), and the Six District Vocational Compact, 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 15. 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 16.

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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:

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

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

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Revenue - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (excluding delinquent taxes) for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

D. Budgets and Budgetary Accounting

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

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to overnight repurchase agreements, certificates of deposit, and interest in STAR Ohio, the State Treasurer's Investment Pool. All investments of the School District had a maturity of two years or less. These investments are stated at cost, which approximates market value (fair value). Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as explained in Note 3.

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

F. Interfund Balances

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

G. Inventory

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

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. Restricted assets may include unexpended revenues restricted for the purchase of school buses, and amounts required to be set aside by the School District for the purchase of textbooks or for the acquisition or construction of capital assets. Restricted assets may also include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. The School District expended all restricted assets in accordance with specific restrictions during the previous fiscal year. See Note 11 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

I. Capital Assets

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

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

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Operating Revenues and Expenses

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

N. Interfund Transactions

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

O. Estimates

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

P. Fund Balance Reserves

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balance

	<u>General</u>
<i>GAAP basis</i>	\$ 841,206
<i>Revenue accruals</i>	400,309
<i>Advances in</i>	111,250
<i>Expenditure accruals</i>	(1,028,263)
<i>Advances out</i>	(10,000)
<i>Encumbrances (Budget Basis)</i>	
<i>outstanding at year end</i>	<u>469,308</u>
<i>Budget basis</i>	<u>\$ 783,810</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

A. Cash on hand

At fiscal year-end, the School District had \$1,278 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents".

B. Deposits

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

As of June 30, the carrying amount of the School District's deposits was \$11,070,905. The School District's bank balance of \$11,277,530 was exposed to custodial credit risk as follows:

<i>Uninsured and collateral held by pledging bank's trust department and not in the School District's name</i>	<i>\$ 10,868,940</i>
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KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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	\$ 360,000	Daily	N/A ⁽¹⁾
STAR Ohio	3,407,366	N/A	AAAm ⁽²⁾
	<u>\$ 3,767,366</u>		

⁽¹⁾ Underlying securities are exempt.

⁽²⁾ Standard and Poor's rating

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

All interest is legally required to be placed in the general, building, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2006 amount to \$694,577, which includes \$209,481 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 \$360,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

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

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

NOTE 4 - PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. In prior years, tangible personal property was assessed at 25 % of true value for capital assets and 23 % of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 %. This will be reduced to 12.5 % for 2007, 6.25 % for 2008 and zero for 2009.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes, which became measurable as of year-end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as advances at year-end were \$1,402,440 in the general fund and \$183,136 in the bond retirement debt service fund, and are recognized as revenue on the fund financial statements.

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

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

<u>Property Category</u>	<u>2005</u> <u>Assessed Value</u>	<u>2004</u> <u>Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 335,232,550	\$ 328,211,160
Commercial, industrial and minerals	104,362,760	104,771,250
Public utilities	176,810	177,210
<u>Tangible Personal Property</u>		
General	27,410,063	37,441,075
Public utilities	13,883,640	16,128,800
Total	<u>\$ 481,065,823</u>	<u>\$ 486,729,495</u>

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
 For the Fiscal Year Ended June 30, 2006

NOTE 5 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition and excess costs), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. The general fund accounts receivable at year-end consisted of tuition, excess costs and other miscellaneous reimbursements of \$217,010. Also, the general fund and several special revenue funds recorded intergovernmental receivables for state and federal grants and reimbursements totaling \$142,214.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

<i>Governmental Activities</i>	<i>Balance June 30, 2005</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2006</i>
<i>Capital assets, not being depreciated:</i>				
<i>Land</i>	\$ 1,449,535	\$ 205,933	\$ (7,250)	\$ 1,648,218
<i>Capital assets, being depreciated:</i>				
<i>Land improvements</i>	435,632	21,965	-	457,597
<i>Buildings and improvements</i>	36,803,518	224,929	-	37,028,447
<i>Furniture, fixtures and equipment</i>	1,765,474	36,660	-	1,802,134
<i>Vehicles</i>	2,334,051	113,650	-	2,447,701
<i>Total capital assets, being depreciated</i>	<u>41,338,675</u>	<u>397,204</u>	<u>-</u>	<u>41,735,879</u>
<i>Less: Accumulated depreciation</i>				
<i>Land improvements</i>	(102,761)	(22,331)	-	(125,092)
<i>Buildings and improvements</i>	(10,931,388)	(710,223)	-	(11,641,611)
<i>Furniture, fixtures and equipment</i>	(1,383,340)	(163,593)	-	(1,546,933)
<i>Vehicles</i>	(1,478,219)	(213,208)	-	(1,691,427)
<i>Total accumulated depreciation</i>	<u>(13,895,708)</u>	<u>(1,109,355)</u>	<u>-</u>	<u>(15,005,063)</u>
<i>Total capital assets being depreciated, net</i>	<u>27,442,967</u>	<u>(712,151)</u>	<u>-</u>	<u>26,730,816</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 28,892,502</u>	<u>\$ (506,218)</u>	<u>\$ (7,250)</u>	<u>\$ 28,379,034</u>

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 759,121
<i>Support services:</i>	
<i>Pupils</i>	2,327
<i>Instructional staff</i>	81,331
<i>Administration</i>	9,613
<i>Operation and maintenance of plant</i>	26,710
<i>Pupil transportation</i>	199,473
<i>Food service operations</i>	4,511
<i>Extracurricular activities</i>	<u>26,269</u>
<i>Total depreciation expense</i>	<u>\$ 1,109,355</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2006 consisted of the following:

<i>Due to general fund from:</i>	
<i>Nonmajor governmental funds</i>	\$ 10,000

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, 2006, all interfund loans outstanding are anticipated to be repaid in fiscal year 2007

B. Transfers at June 30, 2006 consisted of the following:

<i>Transfers to nonmajor governmental funds from:</i>	
<i>General fund</i>	\$ 517,550
<i>Nonmajor governmental funds</i>	<u>1,320</u>
<i>Total</i>	<u>\$ 518,870</u>

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 - 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 \$299,912, 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 2005 and 2006 were:

<i>Fiscal Year</i>	<i>Balance at beginning of year</i>	<i>Current year claims</i>	<i>Claim payments</i>	<i>Balance at end of year</i>
2005	\$ 249,236	2,614,535	(2,580,316)	\$ 283,455
2006	\$ 283,455	3,053,007	(3,036,550)	\$ 299,912

C. Worker's Compensation

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were 612,201, \$579,315 and \$562,650, respectively; 40% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$368,724, representing the unpaid contribution for fiscal year 2006, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

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

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries and the School District was required to contribute an actuarially determined rate of 14% of annual covered payroll, which includes 13% for pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005 and 2004 were 2,673,119, \$2,575,411 and \$2,532,296, respectively; 83% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$449,663, representing the unpaid contribution for fiscal year 2006, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2006 were \$22,291 made by the School District and \$59,994 made by the plan members.

NOTE 10 - POST-EMPLOYMENT BENEFITS

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

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$205,625 during the 2006 fiscal year. The balance in the Health Care Stabilization Fund for the STRS was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, the net health care costs paid by the STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. For this fiscal year, employer contributions to fund health care benefits were 3.42% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$280,761, which includes a surcharge of \$82,866 during the 2006 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were \$158,751,207. The target level for the health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claims costs. The number of participants eligible to receive benefits is 59,492.

NOTE 11- STATUTORY RESERVES

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

During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>
<i>Set-aside cash balance as of June 30, 2005</i>	\$ (590,601)	\$ -
<i>Current year set-aside requirement</i>	540,413	540,413
<i>Qualifying disbursements</i>	<u>(650,237)</u>	<u>(1,565,005)</u>
<i>Total</i>	<u>\$ (700,425)</u>	<u>\$ (1,024,592)</u>
<i>Balance carried forward to future years</i>	<u>\$ (700,425)</u>	

KENT CITY SCHOOL DISTRICTNotes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**NOTE 12 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS**

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

<i>Governmental activities</i>	<i>Balance June 30, 2005</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance June 30, 2006</i>	<i>Due in one year</i>
<i>General Obligation Bonds</i>					
<i>1997 School improvement bonds,</i>					
<i>Serial bonds</i>	\$ 630,000	\$ -	\$ (630,000)	\$ -	\$ -
<i>Capital appreciation bonds</i>	356,187	-	-	356,187	189,751
<i>Accretion on bonds</i>	676,989	144,717	-	821,706	-
<i>1998 School improvement bonds,</i>					
<i>Serial bonds</i>	2,570,000	-	(135,000)	2,435,000	140,000
<i>Capital appreciation bonds</i>	139,998	-	-	139,998	-
<i>Accretion on bonds</i>	148,397	30,362	-	178,759	-
<i>2004 Library bonds</i>					
<i>Serial and term bonds</i>	12,910,000	-	(355,000)	12,555,000	360,000
<i>Capital appreciation bonds</i>	239,996	-	-	239,996	-
<i>Accretion on bonds</i>	20,057	17,227	-	37,284	-
<i>Premium</i>	170,847	-	(12,567)	158,280	-
<i>2004 School improvement refunding</i>					
<i>Serial and term bonds</i>	13,580,000	-	(140,000)	13,440,000	145,000
<i>Capital appreciation bonds</i>	49,999	-	-	49,999	-
<i>Accretion on bonds</i>	8,059	20,405	-	28,464	-
<i>Premium</i>	1,352,802	-	(137,039)	1,215,763	-
<i>Unamortized deferred cost of refunding</i>	(1,174,951)	-	119,024	(1,055,927)	-
<i>Total Bonds</i>	<u>31,678,380</u>	<u>212,711</u>	<u>(1,290,582)</u>	<u>30,600,509</u>	<u>834,751</u>
<i>Other Obligations</i>					
<i>Compensated absences</i>	2,300,307	665,449	(596,137)	2,369,619	457,591
<i>Capital leases payable</i>	716,394	-	(156,444)	559,950	162,314
<i>Total other liabilities</i>	<u>3,016,701</u>	<u>665,449</u>	<u>(752,581)</u>	<u>2,929,569</u>	<u>619,905</u>
<i>Governmental activities long-term liabilities</i>	<u>\$ 34,695,081</u>	<u>\$ 878,160</u>	<u>\$ (2,043,163)</u>	<u>\$ 33,530,078</u>	<u>\$ 1,454,656</u>

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

During the 1997 and 1998 fiscal years, the School District issued general obligation bonds to finance construction and improvements of school buildings and facilities. Also, during fiscal year 2004, the School District issued library bonds. Finally, during fiscal year 2005 the School District issued school improvement refunding bonds. All of these bond issues include serial and capital appreciation bonds. Current year additions amounted to \$144,717, \$30,362, \$17,227 and \$20,405, respectively, which represent the accretion of discounted interest. The final amounts of the 1997, 1998, 2004 library bonds and 2004 refunding capital appreciation bonds will be \$670,000, \$150,000, \$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. 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 will be paid from the fund from which the person is paid. In prior years, capital lease obligations were typically paid from the general fund.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Principal and interest requirements to amortize all bonds outstanding at June 30, 2006 are as follows:

<i>Fiscal</i> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 834,751	\$ 1,676,769	\$ 2,511,520
2008	866,435	1,682,079	2,548,514
2009	1,284,493	1,253,926	2,538,419
2010	1,321,639	1,222,773	2,544,412
2011	1,353,866	1,187,284	2,541,150
2012-2016	6,754,995	5,862,362	12,617,357
2017-2021	9,640,000	2,820,056	12,460,056
2022-2026	4,860,000	909,387	5,769,387
2027-2029	<u>2,300,000</u>	<u>140,888</u>	<u>2,440,888</u>
<i>Total</i>	<u>\$ 29,216,179</u>	<u>\$ 16,755,524</u>	<u>\$ 45,971,703</u>

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets acquired by lease have been capitalized as equipment in the amount of \$429,942 and as buildings in the amount of \$1,000,000. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$156,444.

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

<i>Fiscal</i> <u>Year</u>	<i>Lease</i> <u>Payments</u>
2007	\$ 181,477
2008	181,477
2009	181,477
2010	<u>55,451</u>
<i>Total minimum lease payments</i>	599,882
<i>Less: amount representing interest</i>	<u>(39,932)</u>
<i>Total</i>	<u>\$ 559,950</u>

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - OPERATING LEASES - LESSEE DISCLOSURE

During a previous fiscal year, the School District entered into a sixty month, noncancelable operating lease arrangement for the lease of copiers. Total costs for such leases were \$33,915 for the current fiscal year. The final payment of \$12,192 will be made in fiscal year 2007.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Northeast Ohio Network for Educational Technology (NEOnet) is the computer service Organization or Data Acquisition Site (DAS) used by the School District. NEOnet is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All school districts in the consortium are required to pay fees, charges and assessments as charged. NEOnet is governed by a board made up of superintendents (or designees) from all of the participating school districts. An elected Executive Board consisting of nine members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOnet are made from the general fund. During fiscal year 2006, the School District contributed \$32,044 to NEOnet. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

The Six District Vocational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. During fiscal year 2006, the School District contributed a nominal amount to the Six District Vocational Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

NOTE 16 - RELATED ORGANIZATIONS

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

During fiscal year 2006, the School District provided educational management information systems coordinating services and other administrative services to the Kent Digital Academy. As of June 30,

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

2006, all of these services were paid in full. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Kent Digital Academy, 321 N. Depeyster Street, Kent, OH 44240.

NOTE 17 - 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, 2006.

NOTE 18 – ACCOUNTABILITY

A. Change in Accounting Principles

For the fiscal year 2006, the School District has implemented GASB Statement No 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of these new standards did not require a restatement of balances.

B. Fund Deficits

As of June 30, 2006, a few 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:

<u>Fund</u>	<u>Amount</u>
EMIS	\$ 2,741
Ohio reads	34
Poverty assistance	1,722

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 19 – REQUIRED SUPPLEMENTARY INFORMATION (RSI) IS OMITTED

For the fiscal year ended June 30, 2006, the School District was required to implement GASB Technical Bulletin No. 2004-2. In addition to the implementation of this guidance, the School District simultaneously implemented GASB Statement No. 45, as recommended by the GASB. A requirement of the Statement is that either: schedules of funding and employer contributions to their OPEB plans be prepared in accordance with GASB Statement No. 43 and made publicly available by SERS and STRS; or provided the information is not available from SERS or STRS, the School District is to present as required supplementary information (RSI) in its own financial report schedules of funding progress and employer contributions for the plan (and notes to these schedules), prepared in accordance with the requirements of Statement No. 43. As of the date of this report, the retirement systems have not conducted a valuation of their plans in a manner to provide this information. Therefore the RSI is unavailable to the School District and it does not follow these notes to the financial statements.

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$ 28,919		\$ 28,919
Child Nutrition Cluster:						
School Breakfast Program	05PU-2006	10.553	\$ 84,092		\$ 84,092	
	05PU-2005		28,748		28,748	
National School Lunch Program	LLP4-2006	10.555	283,856		283,856	
	LLP4-2005		96,214		96,214	
Total Child Nutrition Cluster			492,910		492,910	
Team Nutrition	N/A	10.574	490		400	
Total U.S. Department of Agriculture			493,400	28,919	493,310	28,919
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States (IDEA Part B)	6BSA-05/06	84.027	37,500		37,193	
	6BSA-04-05				16,775	
	6BPM-05				88	
	6BPM-06		25,000		24,975	
	6BSF-04/05		8,040		211,208	
	6BSF-05/06		785,907		629,619	
Total Special Education - Grants to States (IDEA Part B)			856,447		919,858	
Special Education - Preschool Grants	PG-S1-05	84.173	3,185		6,927	
	PG-S1-06		34,057		28,912	
Total Special Education - Preschool Grants			37,242		35,839	
Total Special Education Cluster			893,689		955,697	
Adult Education - State Grant Program	ABS1-05	84.002	9,385		9,385	
	ABS1-06		59,387		59,387	
Total Adult Education - State Grant Program			68,772		68,772	
Grants to Local Educational Agencies (Title I)	C1S1-04/05	84.010	96,293		105,232	
	C1S1-05/06		800,531		672,451	
Total Grants to Local Educational Agencies (Title I)			896,824		777,683	
Vocational Education - Basic Grants to State	20C1-04/05	84.048	71,929		71,929	
	20AO-04/05		10,000		9,298	
Total Vocational Education - Basic Grants to State			81,929		81,227	
Safe and Drug Free Schools (Title IV-A)	DRS1-04/05	84.186	1,361		2,008	
	DRS1-05/06		19,347		16,748	
Total Safe and Drug Free Schools (Title IV-A)			20,708		18,756	
Innovative Education Program Strategies (Title V)	C2S1-05	84.298	228		1,635	
	C2S1-06		11,292		10,960	
Total Innovative Education Program Strategies (Title V)			11,520		12,595	
Technology Literacy Quality State Grants (Title II-D)	TJS1-04/05	84.318	(2,792)		151	
	TJS1-05/06		14,760		12,794	
Total Technology Literacy Quality State Grants (Title II-D)			11,968		12,945	
Advanced Placement Test	AVTF-06	84.330	520		520	
English Language Acquisition Grants (Title III)	T3S1-04/05	84.365	(144)		1,137	
	T3S1-05/06		13,661		8,348	
	T3S2-04/05		(784)			
	T3S2-05/06		6,335		6,329	
Total English Language Acquisition Grants (Title III)			19,068		15,814	
Improving Teacher Quality State Grants (Title II-A)	TRS1-04/05	84.367	14,035		30,659	
	TRS1-05/06		203,975		195,614	
Total Improving Teacher Quality State Grants (Title II-A)			218,010		226,273	
Total U.S. Department of Education			2,223,008		2,170,282	
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program (SCHIP)	N/A	93.767	7,163		7,163	
Medical Assistance Payments - Title XIX (Community Alternative Funding System)	N/A	93.778	133,969		133,969	
Total U.S. Department of Health & Human Services			141,132		141,132	
Totals			\$ 2,857,540	\$ 28,919	\$ 2,804,724	\$ 28,919

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

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kent City School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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

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

Mary Taylor, CPA
Auditor of State

February 13, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Kent City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 13, 2007

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
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
MAY 10, 2007