

Kent City School District

Basic Financial Statements
For Fiscal Year Ended: June 30, 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Kent City School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

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Auditor of State

April 1, 2009

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Kent City School District
Basic Financial Statements
Fiscal Year Ended June 30, 2008

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

February 16, 2009

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2009 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Independent Auditor's Report
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The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
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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, 2008. 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 2008 are as follows:

- Net assets of governmental activities increased by \$2,614,465 from 2007.
- General revenues accounted for \$40,981,271 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 \$7,592,745 or 15.6 percent of total revenues of \$48,574,016.
- The School District had \$45,959,551 in expenses related to governmental activities; only \$7,592,745 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$40,981,271 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$12,077,961, an increase of \$1,696,854 from 2007.
- The School District issued \$2,149,996 in refunding bonds which include serial, term and capital appreciation bonds. The bonds were used to refund the 1998 School Improvement Bonds.

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.

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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 2008?" 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.

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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 2008 compared to 2007:

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 43,668,234	\$ 43,255,782
Capital assets, net of depreciation	<u>28,322,615</u>	<u>29,082,127</u>
Total assets	<u>71,990,849</u>	<u>72,337,909</u>
Liabilities		
Current and other liabilities	27,435,898	28,215,310
Long-term liabilities:		
Due within one year	2,184,067	1,814,154
Due in more than one year	<u>30,328,090</u>	<u>32,880,116</u>
Total liabilities	<u>59,948,055</u>	<u>62,909,580</u>
Net Assets		
Invested in capital assets, net of related debt	11,068,097	11,230,503
Restricted	1,862,037	1,974,052
Unrestricted	<u>(887,340)</u>	<u>(3,776,226)</u>
Total net assets	<u>\$ 12,042,794</u>	<u>\$ 9,428,329</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the School District's assets exceeded liabilities by \$12,042,794, an increase of \$2,614,465 from net assets at June 30, 2007.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2008. 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, \$1,862,037 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$844,636 is restricted for debt service payments; \$509,232 is restricted for capital projects; and \$508,169 is restricted for other purposes. Unrestricted net assets reported a deficit balance of \$887,340 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 a positive balance and could be used to meet the government's ongoing obligations to students and staff.

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Table 2 shows change in net assets for fiscal years 2008 and 2007.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues:		
Charges for services	\$ 4,227,258	\$ 3,901,056
Operating grants, contributions and interest	3,351,217	3,482,939
Capital grants and contributions	14,270	25,521
General revenues:		
Property taxes	23,792,943	22,396,276
Grants and entitlements	16,243,597	15,156,251
Investment earnings	886,493	996,276
Miscellaneous	58,238	12,150
Total revenues	<u>48,574,016</u>	<u>45,970,469</u>
Program Expenses		
Instruction:		
Regular	18,526,247	17,965,966
Special	4,176,512	4,049,978
Vocational	2,076,183	2,058,820
Adult/continuing	113,421	96,487
Other	1,071,904	1,130,829
Support services:		
Pupils	2,347,188	2,235,609
Instructional staff	2,968,876	2,877,334
Board of education	193,924	248,486
Administration	3,326,654	3,161,374
Fiscal	961,033	911,650
Business	345,101	402,823
Operation and maintenance of plant	3,944,862	3,324,845
Pupil transportation	1,612,718	1,638,745
Central	387,397	349,867
Operation of non-instructional services:		
Food service operations	1,349,283	1,298,812
Community services	486,841	458,215
Extracurricular activities	1,126,250	1,034,577
Interest and fiscal charges	935,063	1,922,000
Intergovernmental	10,094	10,574
Total expenses	<u>45,959,551</u>	<u>45,176,991</u>
Change in net assets	2,614,465	793,478
Net assets at beginning of year	<u>9,428,329</u>	<u>8,634,851</u>
Net assets at end of year	<u>\$ 12,042,794</u>	<u>\$ 9,428,329</u>

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Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$23.7 million in 2008, representing an increase of \$1,396,667 over 2007. The increase 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 \$16.2 million. With the combination of taxes and intergovernmental funding comprising approximately 82.4% 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 \$25,964,267, or 56.5% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$5,316,064, or 11.6% 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 \$4,826,712, or 10.5% 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 \$3,944,862 made up 8.6% 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 \$12,239,483, 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 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 2008 and 2007. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

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Table 3
 Governmental Activities

	Total Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2008</u>	Net Cost of Services <u>2007</u>
Program Expenses				
Instruction:				
Regular	\$ 18,526,247	\$ 17,965,966	\$ (16,087,961)	\$ (15,669,447)
Special	4,176,512	4,049,978	(2,697,005)	(2,895,822)
Vocational	2,076,183	2,058,820	(1,557,676)	(1,559,230)
Adult/continuing	113,421	96,487	9,482	13,699
Other	1,071,904	1,130,829	(1,005,595)	(883,341)
Support services:				
Pupils	2,347,188	2,235,609	(2,149,306)	(1,976,392)
Instructional staff	2,968,876	2,877,334	(2,682,326)	(2,226,522)
Board of education	193,924	248,486	(193,924)	(248,486)
Administration	3,326,654	3,161,374	(3,067,673)	(3,054,769)
Fiscal	961,033	911,650	(961,033)	(911,650)
Business	345,101	402,823	(345,101)	(402,823)
Operation and maintenance of plant	3,944,862	3,324,845	(3,801,909)	(3,192,331)
Pupil transportation	1,612,718	1,638,745	(1,556,689)	(1,610,231)
Central	387,397	349,867	(335,028)	(291,784)
Operation non-instructional services:				
Food service operations	1,349,283	1,298,812	11,807	36,783
Community services	486,841	458,215	(206,842)	(183,010)
Extracurricular activities	1,126,250	1,034,577	(794,870)	(779,545)
Interest and fiscal charges	935,063	1,922,000	(935,063)	(1,922,000)
Intergovernmental	<u>10,094</u>	<u>10,574</u>	<u>(10,094)</u>	<u>(10,574)</u>
Total	<u>\$ 45,959,551</u>	<u>\$ 45,176,991</u>	<u>\$ (38,366,806)</u>	<u>\$ (37,767,475)</u>

The dependence upon tax revenues for governmental activities is apparent with only 16.5% of governmental expenses supported by program revenues.

The School District's Funds

The School District's funds are accounted for using the modified accrual basis of accounting. The total revenues are \$48,742,381 and total expenditures are \$47,198,177. The total net change in fund balance across all governmental funds was an increase of \$1,696,854. Net increase in fund balance for the year was significant in the general fund, amounting to \$1,927,186 or 23.2%. The increase is largely attributable to an increase in intergovernmental and customer services revenue exceeding the increase in expenditures. Net decreases across all other nonmajor governmental funds amounted to \$230,332, or 11.1%. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

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Table 4
 Fund Balances

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	Increase (Decrease) <u></u>
General	\$ 10,237,361	\$ 8,310,175	\$ 1,927,186
Other government	<u>1,840,600</u>	<u>2,070,932</u>	<u>(230,332)</u>
Total	<u>\$ 12,077,961</u>	<u>\$ 10,381,107</u>	<u>\$ 1,696,854</u>

General Fund Budgeting Highlights

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

During fiscal year 2008, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$41,490,676, which was slightly higher than the original budget estimate of \$40,837,134. This difference of \$653,542, or 1.6%, is considered insignificant. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized. The actual revenue and other financing sources was \$41,502,173, which was slightly higher than the final budget estimate of \$41,343,244.

The original expenditures and other financing uses estimate of \$39,965,789 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$39,794,198, or \$171,591 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 2008, the School District had \$28,322,615 invested in capital assets. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007:

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 Management's Discussion and Analysis
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Table 5
 Capital Assets, at Fiscal Year End
 (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 1,648,218	\$ 1,648,218
Land improvements	287,458	309,863
Buildings and improvements	25,243,002	26,042,212
Furniture, fixtures and equipment	375,732	322,709
Vehicles	<u>768,205</u>	<u>759,125</u>
Total capital assets	<u>\$ 28,322,615</u>	<u>\$ 29,082,127</u>

The total decrease in capital assets is due to current year depreciation expense exceeding acquisitions of the current year. 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 \$2,663,783 have a book value of only \$768,205. This indicates that the vehicles, in total, are reported at approximately 29% or nearly two-thirds depreciated.

Debt

At June 30, 2008 the School District had general obligation bonds outstanding of \$28,297,945, with \$1,420,000 due within one year. Also, the School District has capital lease obligations of \$1,724,456, with \$286,192 due within one year. The outstanding bond balance reflects a net decrease of \$1,636,881 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.

The School District issued \$2,149,996 in refunding bonds which include serial, term and capital appreciation bonds. The bonds were used to refund the 1998 School Improvement Bonds with an average interest rate of 5.1%, see Note 12 for more information on the School District's debt.

At June 30, 2008, the School District's overall legal debt margin (the ability to issue additional amounts of general obligation debt) was \$18,012,057, with an unvoted debt margin of \$505,856. 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

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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.

Kent City School District
Statement of Net Assets
June 30, 2008

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 18,998,208
Cash and cash equivalents:	
In segregated accounts	15,363
Inventory held for resale	13,971
Materials and supplies inventory	54,498
Deferred charges	272,179
Receivables:	
Accounts	352,759
Intergovernmental	23,927
Accrued interest	46,631
Taxes	23,890,698
Capital assets:	
Land	1,648,218
Depreciable capital assets, net	26,674,397
Total capital assets	<u>28,322,615</u>
Total assets	<u>71,990,849</u>
<u>Liabilities:</u>	
Accounts payable	205,358
Accrued wages	3,239,222
Matured compensated absences payable	209,284
Intergovernmental payable	1,423,305
Undistributed monies	6,118
Accrued interest payable	103,345
Claims payable	372,856
Deferred revenue	21,876,410
Long-term liabilities:	
Due within one year	2,184,067
Due in more than one year	30,328,090
Total liabilities	<u>59,948,055</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	11,068,097
Restricted for:	
Capital projects	509,232
Debt service	844,636
Other purposes	508,169
Unrestricted	<u>(887,340)</u>
Total net assets	<u>\$ 12,042,794</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 18,526,247	\$ 2,114,483	\$ 323,803	\$ -	\$ (16,087,961)
Special	4,176,512	321,258	1,158,249	-	(2,697,005)
Vocational	2,076,183	508,317	10,190	-	(1,557,676)
Adult/continuing	113,421	59,856	63,047	-	9,482
Other	1,071,904	-	66,309	-	(1,005,595)
Support services:					
Pupils	2,347,188	-	197,882	-	(2,149,306)
Instructional staff	2,968,876	1,134	285,416	-	(2,682,326)
Board of education	193,924	-	-	-	(193,924)
Administration	3,326,654	3,000	255,981	-	(3,067,673)
Fiscal	961,033	-	-	-	(961,033)
Business	345,101	-	-	-	(345,101)
Operation and maintenance of plant	3,944,862	142,953	-	-	(3,801,909)
Pupil transportation	1,612,718	41,759	-	14,270	(1,556,689)
Central	387,397	-	52,369	-	(335,028)
Operation of non-instructional services:					
Food service operations	1,349,283	627,299	733,791	-	11,807
Community services	486,841	75,819	204,180	-	(206,842)
Extracurricular activities	1,126,250	331,380	-	-	(794,870)
Interest and fiscal charges	935,063	-	-	-	(935,063)
Intergovernmental	10,094	-	-	-	(10,094)
Total governmental activities	<u>\$ 45,959,551</u>	<u>\$ 4,227,258</u>	<u>\$ 3,351,217</u>	<u>\$ 14,270</u>	<u>(38,366,806)</u>

General Revenues:

Property taxes levied for:

General purposes	21,474,291
Debt service	2,318,652
Grants and entitlements not restricted to specific programs	16,243,597
Investment earnings	886,493
Miscellaneous	58,238

Total general revenues 40,981,271

Change in net assets 2,614,465

Net assets at beginning of year 9,428,329

Net assets at end of year \$ 12,042,794

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 13,740,625	\$ 2,162,383	\$ 15,903,008
Cash and cash equivalents:			
In segregated accounts	-	15,363	15,363
Inventory held for resale	-	13,971	13,971
Materials and supplies inventory	48,126	6,372	54,498
Receivables:			
Accounts	143,608	9,166	152,774
Intergovernmental	-	23,927	23,927
Accrued interest	46,602	29	46,631
Interfund	5,171	-	5,171
Taxes	21,500,170	2,390,528	23,890,698
Total assets	<u>\$ 35,484,302</u>	<u>\$ 4,621,739</u>	<u>\$ 40,106,041</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 58,895	\$ 143,538	\$ 202,433
Accrued wages	2,998,079	241,143	3,239,222
Matured compensated absences payable	209,284	-	209,284
Interfund payable	-	5,171	5,171
Intergovernmental payable	1,323,034	100,271	1,423,305
Deferred revenue	20,651,531	2,291,016	22,942,547
Undistributed monies	6,118	-	6,118
Total liabilities	<u>25,246,941</u>	<u>2,781,139</u>	<u>28,028,080</u>
<u>Fund balances:</u>			
Reserved for encumbrances	373,244	168,105	541,349
Reserved for property taxes	954,343	109,484	1,063,827
Unreserved,			
Undesignated, reported in:			
General fund	8,909,774	-	8,909,774
Special revenue funds	-	401,543	401,543
Debt service fund	-	758,535	758,535
Capital projects funds	-	402,933	402,933
Total fund balances	<u>10,237,361</u>	<u>1,840,600</u>	<u>12,077,961</u>
Total liabilities and fund balances	<u>\$ 35,484,302</u>	<u>\$ 4,621,739</u>	<u>\$ 40,106,041</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, 2008

Total governmental fund balances		\$ 12,077,961
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.		28,322,615
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 950,461	
Intergovernmental	8,856	
Tuition and fees	105,704	
Rent	<u>1,116</u>	
		1,066,137
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.		2,919,404
Deferred charges are included in the governmental activities in the statement of net assets.		272,179
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(103,345)
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	\$ (26,720,000)	
Capital appreciation, including accretion	(1,226,380)	
Premium	(1,173,324)	
Unamortized cost of refunding	821,759	
Compensated absences	(2,489,756)	
Capital leases	<u>(1,724,456)</u>	
Total		<u>(32,512,157)</u>
Net assets of governmental activities		<u>\$ 12,042,794</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, 2008

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 21,513,561	\$ 2,325,002	\$ 23,838,563
Intergovernmental	16,008,800	3,585,930	19,594,730
Interest	885,686	5,475	891,161
Tuition and fees	2,548,559	204,273	2,752,832
Extracurricular activities	-	335,031	335,031
Gifts and donations	15,386	80,013	95,399
Customer services	318,485	628,760	947,245
Rent	141,644	25,492	167,136
Miscellaneous	42,852	77,432	120,284
Total revenues	<u>41,474,973</u>	<u>7,267,408</u>	<u>48,742,381</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	17,273,934	606,083	17,880,017
Special	3,163,956	977,496	4,141,452
Vocational	2,059,818	26,203	2,086,021
Adult/Continuing	-	113,421	113,421
Other	1,035,748	50,178	1,085,926
Support services:			
Pupils	2,166,969	212,883	2,379,852
Instructional staff	2,447,562	468,421	2,915,983
Board of education	193,924	-	193,924
Administration	3,035,912	275,233	3,311,145
Fiscal	904,061	42,429	946,490
Business	338,490	-	338,490
Operation and maintenance of plant	3,177,091	614,354	3,791,445
Pupil transportation	1,378,509	41,318	1,419,827
Central	330,410	54,941	385,351
Operation of non-instructional services:			
Food service operations	-	1,344,637	1,344,637
Community services	117,377	366,108	483,485
Extracurricular activities	762,749	338,620	1,101,369
Capital outlay	280,435	52,654	333,089
Intergovernmental	-	10,094	10,094
Debt service:			
Principal retirement	265,817	1,850,250	2,116,067
Interest and fiscal charges	80,130	679,312	759,442
Issuance costs	-	60,650	60,650
Total expenditures	<u>39,012,892</u>	<u>8,185,285</u>	<u>47,198,177</u>
Excess of revenues over (under) expenditures	<u>2,462,081</u>	<u>(917,877)</u>	<u>1,544,204</u>
<u>Other financing sources (uses):</u>			
Inception of capital lease	92,000	-	92,000
Refunding bonds issued	-	2,149,996	2,149,996
Premium on refunding bonds issued	-	104,530	104,530
Payment to refunded bond escrow agent	-	(2,193,876)	(2,193,876)
Transfers in	-	628,365	628,365
Transfers out	(626,895)	(1,470)	(628,365)
Total other financing sources (uses)	<u>(534,895)</u>	<u>687,545</u>	<u>152,650</u>
Net change in fund balances	1,927,186	(230,332)	1,696,854
Fund balances at beginning of year	8,310,175	2,070,932	10,381,107
Fund balances at end of year	<u>\$ 10,237,361</u>	<u>\$ 1,840,600</u>	<u>\$ 12,077,961</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, 2008

Net change in fund balances - total governmental funds	\$	1,696,854
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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:</p>		
Capital asset additions	\$	333,089
Depreciation expense		<u>(1,092,601)</u>
Excess of capital outlay over depreciation expense		(759,512)
<p>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:</p>		
Property taxes	\$	(45,622)
Intergovernmental		(28,499)
Tuition and fees		(94,415)
Rent		<u>171</u>
Net change in deferred revenues during the year		(168,365)
<p>In governmental funds, a capital lease arrangement is considered a source of financing, but in the statements of net assets, the lease obligation is reported as a liability.</p>		
Inception of a capital lease		(92,000)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		1,850,250
<p>Refunding bonds issued and related premium provide current financial resources and are reported as a financing source in the governmental funds but are not reported as such in the statement of activities.</p>		
		(2,254,526)
<p>Payment to refunded bond escrow agent are reported as a use of current financial resources in the governmental funds but the payment reduces long-term liabilities in the statement of net assets.</p>		
		2,150,000
<p>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</p>		
		265,817
<p>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:</p>		
Decrease in compensated absences	\$	371,415
Decrease in accrued interest		9,391
Current year issuance costs		60,650
Amortization of:		
Issuance cost		(32,293)
Premium		157,480
Deferred cost of refunding		(116,438)
Bond accretion		<u>(149,885)</u>
Total additional expenditures		<u>300,320</u>
<p>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.</p>		
		<u>(374,373)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>2,614,465</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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Taxes	\$ 21,434,936	\$ 21,402,689	\$ 21,402,689	\$ -
Intergovernmental	15,729,157	16,008,800	16,008,800	-
Interest	862,489	862,489	873,764	11,275
Tuition and fees	2,311,075	2,549,819	2,549,874	55
Rent	144,166	148,488	148,488	-
Gifts and donations	15,486	15,386	15,386	-
Customer services	266,795	316,724	316,891	167
Miscellaneous	13,475	38,849	38,849	-
Total revenues	<u>40,777,579</u>	<u>41,343,244</u>	<u>41,354,741</u>	<u>11,497</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	17,568,651	17,312,790	17,312,790	-
Special	3,291,444	3,173,474	3,173,474	-
Vocational	2,075,186	2,052,105	2,052,105	-
Other	1,055,070	1,095,265	1,095,265	-
Support services:				
Pupils	2,071,801	2,184,057	2,184,057	-
Instructional staff	2,226,518	2,422,973	2,422,973	-
Board of education	217,085	194,018	194,018	-
Administration	3,177,649	3,095,949	3,095,949	-
Fiscal	964,545	928,864	928,864	-
Business	385,707	347,776	347,776	-
Operation and maintenance of plant	3,223,719	3,172,552	3,172,552	-
Pupil transportation	1,525,284	1,586,088	1,586,088	-
Central	325,181	330,843	330,843	-
Operation of non-instructional services:				
Community services	132,257	116,972	116,972	-
Extracurricular activities	734,494	760,366	760,366	-
Capital outlay	394,648	387,732	387,732	-
Total expenditures	<u>39,369,239</u>	<u>39,161,824</u>	<u>39,161,824</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1,408,340</u>	<u>2,181,420</u>	<u>2,192,917</u>	<u>11,497</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of fixed assets	3,221	4,260	4,260	-
Refund of prior year expenditures	13,334	100,172	100,172	-
Refund of prior year receipts	(6,500)	(308)	(308)	-
Advances in	43,000	43,000	43,000	-
Advances out	(10,000)	(5,171)	(5,171)	-
Transfers out	(580,050)	(626,895)	(626,895)	-
Total other financing sources (uses)	<u>(536,995)</u>	<u>(484,942)</u>	<u>(484,942)</u>	<u>-</u>
Net change in fund balance	871,345	1,696,478	1,707,975	11,497
Fund balance at beginning of year	10,853,704	10,853,704	10,853,704	-
Prior year encumbrances appropriated	703,245	703,245	703,245	-
Fund balance at end of year	<u>\$ 12,428,294</u>	<u>\$ 13,253,427</u>	<u>\$ 13,264,924</u>	<u>\$ 11,497</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2008

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 3,095,200
Accounts receivable	199,985
Total assets	<u>3,295,185</u>
<u>Liabilities:</u>	
Accounts payable	\$ 2,925
Claims payable	372,856
Total liabilities	<u>375,781</u>
<u>Net assets:</u>	
Unrestricted	2,919,404
Total liabilities and net assets	<u>\$ 3,295,185</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, 2008

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 3,526,532
Other	51,671
Total operating revenues	<u>3,578,203</u>
<u>Operating expenses:</u>	
Purchased services	267,275
Claims	3,685,301
Total operating expenses	<u>3,952,576</u>
Operating loss	<u>(374,373)</u>
Change in net assets	(374,373)
Net assets at beginning of year	3,293,777
Net assets at end of year	<u>\$ 2,919,404</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, 2008

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received for charges for services	\$ 3,567,344
Cash payments to suppliers for goods and services	(439,216)
Cash payments for claims	<u>(3,542,346)</u>
Net cash used for operating activities	<u>(414,218)</u>
 Net decrease in cash and cash equivalents	 (414,218)
 Cash and cash equivalents at beginning of year	 <u>3,509,418</u>
Cash and cash equivalents at end of year	<u>\$ 3,095,200</u>
 <u>Reconciliation of operating loss to net cash used for operating activities:</u>	
Operating loss	<u>\$ (374,373)</u>
 Adjustments to reconcile operating loss to net cash used for operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(185,725)
Increase (decrease) in liabilities:	
Accounts payable	2,925
Claims payable	142,955
Total adjustments	<u>(39,845)</u>
Net cash used for operating activities	<u>\$ (414,218)</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 93,903
Total assets	<u>\$ 93,903</u>
<u>Liabilities:</u>	
Accounts payable	\$ 4,502
Due to students	89,401
Total liabilities	<u>\$ 93,903</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, 2008

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 240 non-certificated employees and 375 certificated teaching and support personnel who provide services to 3,556 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, 2008.

The School District is associated with the Northeast Ohio Network for Educational Technology (NEOnet), the Six District Vocational Compact, and the Ohio School Council, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 14. 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 15.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

A. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Governmental Fund Types

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

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

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

Revenue - Exchange and Non-exchange Transactions

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

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

D. Budgets and Budgetary Accounting

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

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

L. Net Assets

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

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

M. Operating Revenues and Expenses

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

N. Interfund Transactions

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

O. Estimates

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

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Net Change in Fund Balance	
	<u>General</u>
GAAP basis	\$ 1,927,186
Revenue accruals	(107,800)
Advances in	43,000
Expenditure accruals	324,860
Advances out	(5,171)
Encumbrances (Budget Basis) outstanding at year end	<u>(474,100)</u>
Budget basis	<u>\$ 1,707,975</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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

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

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

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

A. Cash on hand

At fiscal year-end, the School District had \$8,750 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 \$12,280,314. The School District’s bank balance of \$12,505,025 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and in the School District's name	\$ 12,100,264
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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	\$ 885,000	Daily	AAA ⁽¹⁾
STAR Ohio	<u>5,933,410</u>	N/A	AAA _m ⁽²⁾
	<u>\$ 6,818,410</u>		

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

⁽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 2008 amount to \$885,686, which includes \$240,296 assigned from other School District funds.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 \$885,000 investment in repurchase agreements is to be secured by the specific securities upon which the repurchase agreements are based. As of June 30, 2008, the underlying investment was a Federal National Mortgage Association bond. 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 2008 is 6.25 %. This will be reduced to zero for 2009.

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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 \$954,343 in the general fund and \$109,484 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>2007 Assessed Value</u>	<u>2006 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 372,279,140	\$ 368,126,990
Commercial, industrial and minerals	113,358,780	115,725,960
Public utilities	195,100	161,910
<u>Tangible Personal Property</u>		
General	11,193,886	15,130,258
Public utilities	8,829,160	13,003,740
Total	<u>\$ 505,856,066</u>	<u>\$ 512,148,858</u>

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 and several special revenue funds accounts receivable at year-end consisted of tuition, excess costs and other miscellaneous reimbursements of \$152,774. Also, several special revenue funds recorded intergovernmental receivables for state and federal grants and reimbursements totaling \$23,927.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 1,648,218	\$ -	\$ -	\$ 1,648,218
Capital assets, being depreciated:				
Land improvements	457,597	-	-	457,597
Buildings and improvements	38,438,954	-	-	38,438,954
Furniture, fixtures and equipment	1,957,688	126,337	(14,529)	2,069,496
Vehicles	2,512,638	206,752	(55,607)	2,663,783
Total capital assets, being depreciated	43,366,877	333,089	(70,136)	43,629,830
Less: Accumulated depreciation				
Land improvements	(147,734)	(22,405)	-	(170,139)
Buildings and improvements	(12,396,742)	(799,210)	-	(13,195,952)
Furniture, fixtures and equipment	(1,634,979)	(73,314)	14,529	(1,693,764)
Vehicles	(1,753,513)	(197,672)	55,607	(1,895,578)
Total accumulated depreciation	(15,932,968)	(1,092,601)	70,136	(16,955,433)
Total capital assets being depreciated, net	27,433,909	(759,512)	-	26,674,397
Governmental activities capital assets, net	\$ 29,082,127	\$ (759,512)	\$ -	\$ 28,322,615

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 717,576
Vocational	1,929
Support services:	
Pupils	1,164
Instructional staff	22,899
Administration	9,031
Operation and maintenance of plant	121,583
Pupil transportation	187,450
Food service operations	4,700
Extracurricular activities	26,269
Total depreciation expense	<u>\$ 1,092,601</u>

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2008 consisted of the following:

Due to general fund from:		
Nonmajor governmental funds	\$	5,171

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, 2008, all interfund loans outstanding are anticipated to be repaid in fiscal year 2009.

B. Transfers at June 30, 2008 consisted of the following:

Transfers to nonmajor governmental funds from:		
General fund	\$	626,895
Nonmajor governmental funds		<u>1,470</u>
Total	\$	<u><u>628,365</u></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.

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 \$372,856, 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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Changes in the fund's claims liability during 2007 and 2008 were:

Fiscal Year	Balance at beginning of year	Current year claims	Claim payments	Balance at end of year
2007	\$ 299,912	2,583,416	(2,653,427)	\$ 229,901
2008	\$ 229,901	3,685,301	(3,542,346)	\$ 372,856

C. Worker's Compensation

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$581,414, \$650,631 and \$612,201 respectively; 50.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. State Teachers Retirement System

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

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

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,899,282, \$2,721,108, and \$2,673,119 respectively; 13.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$29,631 made by the School District and \$67,079 made by the plan members.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$118,146.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$383,464, \$288,729, and \$280,761 respectively; 45.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$41,892, \$40,208, and \$38,190 respectively; 50 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$223,022, \$209,316, and \$205,625 respectively; 82.85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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, 2008, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Set-aside cash balance as of June 30, 2007	\$ (669,794)	\$ -
Current year set-aside requirement	570,366	570,366
Qualifying disbursements	<u>(841,409)</u>	<u>(1,834,937)</u>
Total	<u>\$ (940,837)</u>	<u>\$ (1,264,571)</u>
Balance carried forward to future years	<u>\$ (940,837)</u>	

KENT CITY SCHOOL DISTRICTNotes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**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:

<u>Governmental activities</u>	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
1997 School improvement bonds,					
Capital appreciation bonds	\$ 166,436	\$ -	\$ (166,436)	\$ -	\$ -
Accretion on bonds	941,307	42,507	(983,814)	-	-
1998 School improvement bonds,					
Serial bonds	2,295,000	-	(2,295,000)	-	-
Capital appreciation bonds	139,998	-	-	139,998	49,493
Accretion on bonds	212,320	37,098	-	249,418	100,507
2004 Library bonds					
Serial and term bonds	12,195,000	-	(405,000)	11,790,000	415,000
Capital appreciation bonds	239,996	-	-	239,996	-
Accretion on bonds	55,653	19,586	-	75,239	-
Premium	146,062	-	(11,814)	134,248	-
2004 School improvement refunding					
Serial and term bonds	13,295,000	-	(150,000)	13,145,000	820,000
Capital appreciation bonds	49,999	-	-	49,999	-
Accretion on bonds	56,040	37,267	-	93,307	-
Premium	1,080,212	-	(134,063)	946,149	-
Unamortized deferred cost of refunding	(938,197)	-	116,438	(821,759)	-
2007 Refunding bonds					
Serial and term bonds	-	1,785,000	-	1,785,000	35,000
Capital appreciation bonds	-	364,996	-	364,996	-
Accretion on bonds	-	13,427	-	13,427	-
Premium	-	104,530	(11,603)	92,927	-
Total Bonds	<u>29,934,826</u>	<u>2,404,411</u>	<u>(4,041,292)</u>	<u>28,297,945</u>	<u>1,420,000</u>
<u>Other Obligations</u>					
Compensated absences	2,861,171	36,334	(407,749)	2,489,756	477,875
Capital leases payable	<u>1,898,273</u>	<u>92,000</u>	<u>(265,817)</u>	<u>1,724,456</u>	<u>286,192</u>
Total other liabilities	<u>4,759,444</u>	<u>128,334</u>	<u>(673,566)</u>	<u>4,214,212</u>	<u>764,067</u>
Governmental activities long-term liabilities	<u>\$ 34,694,270</u>	<u>\$ 2,532,745</u>	<u>\$ (4,714,858)</u>	<u>\$ 32,512,157</u>	<u>\$ 2,184,067</u>

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

	<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	3.25%	12/1/2021
2007 Refunding	2,149,996	3.625 - 4.25%	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 fiscal year 2008, the School District issued \$2,149,996 in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 3.625-4.25%. The bonds were used to refund \$2,150,000 of outstanding 1998 School Improvement Bonds with an average interest rate of 5.1%. The final amount of the 2007 capital appreciation bonds will be \$610,000. The bond proceeds consisted of bond principal and \$104,530 of premium. The net proceeds of \$2,193,876 (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 1998 School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was not significant as the old debt was called and redeemed prior to the issuance of this report. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

The School District advance refunded the School Improvement Bonds to reduce their total debt service payments over the next 14 years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$66,588.

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 bonds on behalf of the library. 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 \$42,507, \$37,098, \$19,586 and \$37,267, respectively, which represent the accretion of discounted interest. The final amounts including accreted interest of the 1998, 2004 library bonds and 2004 refunding capital appreciation bonds will be \$450,000, \$510,000, and \$1,015,000 respectively.

During fiscal year 2005, the School District issued \$13.6 million in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 3.0-5.25% for the serial bonds and 32.5% for the capital appreciation bonds. The bonds were used to refund \$13.6 million of outstanding School Improvement Bonds with an average interest rate of 5.1%. The net proceeds of \$14.9 million (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. 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

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Principal and interest requirements to amortize all bonds outstanding at June 30, 2008 are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 1,319,493	\$ 1,216,567	\$ 2,536,060
2010	1,356,639	1,184,145	2,540,784
2011	1,393,866	1,147,296	2,541,162
2012	1,530,000	994,456	2,524,456
2013	1,565,000	941,363	2,506,363
2014-2018	7,209,991	5,394,290	12,604,281
2019-2023	8,635,000	1,855,875	10,490,875
2024-2028	3,840,000	563,125	4,403,125
2029	665,000	14,131	679,131
Total	<u>\$ 27,514,989</u>	<u>\$ 13,311,248</u>	<u>\$ 40,826,237</u>

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During the current fiscal year, the School District entered into a capital lease for the acquisition of copiers. The copiers are reported as capital assets equal to the present value of the future minimum lease payments. Prior to the current fiscal year, the School District entered into capitalized lease agreements for the acquisition of copiers, a district-wide telephone system, a district-wide energy conservation project and 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 \$2,047,226. 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 \$265,817.

KENT CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Fiscal <u>Year</u>	Lease <u>Payments</u>
2009	\$ 357,104
2010	231,077
2011	175,627
2012	175,627
2013	139,358
2014-2018	641,004
2019-2022	<u>467,433</u>
Total minimum lease payments	2,187,230
Less: amount representing interest	<u>(462,774)</u>
Total	<u>\$ 1,724,456</u>

NOTE 14 - 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 2008, the School District contributed \$102,101 to NEOnet. This contribution includes purchases of software and related items as well as payment for services. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

The Six District 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 2008, 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.

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 15 - 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 2008, the School District provided educational management information systems coordinating services and other administrative services to the Kent Digital Academy. As of June 30, 2008, 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 16 - 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, 2008.

NOTE 17 – ACCOUNTABILITY

As of June 30, 2008, a several special revenue funds had deficit fund balances. These deficits were caused by the application of GAAP. The general fund provides advances to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had deficit balances:

KENT CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

<u>Fund</u>	<u>Amount</u>
Rotary	\$ 10,854
Management information systems	665
Entry year programs	5
SchoolNet professional development	31
Alternative schools	5,745
Poverty based assistance	682
Adult basic education	4,597
Title VI-B	21,953
Title I	4,135
Title VI	510
IDEA preschool	4,802
Improving teacher quality	6,180

NOTE 18– NEW ACCOUNTING AND REPORTING STANDARDS

In September 2006, the GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. The School District has considered the implications of this statement and has determined that it has no impact on the financial statements or note disclosures for the current period

In May 2007, the GASB issued Statement No. 50, Pension Disclosures. The School District has determined that the adoption of this statement did not have an impact on the School District's financial statements; however, note disclosures related to pension benefits has been modified.

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Kent City School District

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Report Letters

June 30, 2008

KENT CITY SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

February 16, 2009

To the Board of Education
Kent City School District
Portage County, Ohio
321 North Depeyster Street
Kent, Ohio 44240

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kent City School District as of and for the year ended June 30, 2008, and have issued our report thereon dated February 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we did note certain internal control matters that we reported to the management of Kent City School District in a separate letter dated February 16, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain noncompliance matter not requiring inclusion in this report that we reported to management of Kent City School District in a separate letter dated February 16, 2009.

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

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

February 16, 2009

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

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

Compliance

We have audited the compliance of the Kent City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Kent City School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Kent City School District's management. Our responsibility is to express an opinion on Kent City School District's compliance based on our audit.

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

In our opinion, Kent City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Kent City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kent City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kent City School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City School District as of and for the year ended June 30, 2008, and have issued our report thereon dated February 16, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of the Kent City School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Rea & Associates, Inc.

KENT CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass Through Grantor Program Title	Program Year	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>						
Child Nutrition Cluster:						
School Breakfast Program (B)		10.553	\$ 167,874		\$ 167,874	
National School Lunch Program (B)		10.555	477,689		477,689	
Food Commodity Distribution (A) (B)		10.555		\$ 59,743		\$ 59,743
Total Child Nutrition Cluster			645,563	59,743	645,563	59,743
Total U.S. Department of Agriculture			645,563	59,743	645,563	59,743
<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)	2007	84.027	49,034		165,904	
	2007	84.027	-		269	
	2008	84.027	19,829		24,571	
	2008	84.027	872,062		778,954	
Total Special Education - Grants to States (IDEA Part B)			940,925		969,698	
Special Education - Preschool Grants	2007	84.173	1,347		3,121	
	2008	84.173	30,924		30,062	
Total Special Education - Preschool Grants			32,271		33,183	
Total Special Education Cluster			973,196		1,002,881	
Adult Education - State Grant Program	2007	84.002	6,475		6,475	
	2008	84.002	53,342		53,342	
Total Adult Education - State Grant Program			59,817		59,817	
Grants to Local Educational Agencies (Title I)	2007	84.010	81,711		108,292	
	2008	84.010	756,144		653,769	
Total Grants to Local Educational Agencies (Title I)			837,855		762,061	
Safe and Drug Free Schools (Title IV-A)	2007	84.186	-		14,724	
	2008	84.186	17,891		16,667	
Total Safe and Drug Free Schools (Title IV-A)			17,891		31,391	
Innovative Education Program Strategies (Title V)	2007	84.298	-		773	
	2008	84.298	5,949		5,518	
Total Innovative Education Program Strategies (Title V)			5,949		6,291	
Technology Literacy Quality State Grants (Title II-D)	2007	84.318	-		2,769	
	2008	84.318	15,440		12,877	
Total Technology Literacy Quality State Grants (Title II-D)			15,440		15,646	
English Language Acquisition Grants (Title III)	2007	84.365	-		21	
	2008	84.365	17,537		17,813	
Total English Language Acquisition Grants (Title III)			17,537		17,834	
Improving Teacher Quality State Grants (Title II-A)	2007	84.367	4,834		34,464	
	2008	84.367	202,979		172,100	
Total Improving Teacher Quality State Grants (Title II-A)			207,813		206,564	
<i>Passed Through Six District Educational Compact:</i>						
Vocational Education - Basic Grants to State	N/A	84.048	76,437		76,437	
Total Vocational Education - Basic Grants to State			76,437		76,437	
Total U.S. Department of Education			2,211,935		2,178,922	
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Payments - Title XIX (Community Alternative Funding System) (C)	N/A	93.778	101,488		-	
Total U.S. Department of Health & Human Services			101,488		-	
Totals			\$ 2,958,986	\$ 59,743	\$ 2,824,485	\$ 59,743

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(C) Cash receipts for the Community Alternative Funding System (CAFS) totaled \$101,488 in fiscal year 2008. These amounts related to settlements for CAFS service provided during prior years.

**KENT CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



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
APRIL 16, 2009