

Kent City School District
Portage County, Ohio

Basic Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Kent City School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 23, 2013

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KENT CITY SCHOOL DISTRICT
For the Year Ended June 30, 2012
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December 7, 2012

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio (the "School District") as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the general fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Kent City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- Net assets of governmental activities decreased by \$907,545 from 2011.
- General revenues accounted for \$39,538,116 in revenue or 81.7% of all revenues. Program revenues in the form of charges for services, operating grants, contributions and interest accounted for \$8,873,731 or 18.3% of total revenues of \$48,411,847.
- The School District had \$49,319,392 in expenses related to governmental activities; only \$8,873,731 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$39,538,116 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$16,833,522, a decrease of \$880,373 from 2011.

Using this Annual Financial Report

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

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

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2012 compared to 2011:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 43,623,533	\$ 46,854,731
Capital assets, net of depreciation	26,610,310	26,859,909
Total assets	<u>70,233,843</u>	<u>73,714,640</u>
Liabilities		
Current and other liabilities	25,746,003	26,815,322
Long-term liabilities:		
Due within one year	2,354,231	2,371,021
Due in more than one year	<u>24,540,748</u>	<u>26,027,891</u>
Total liabilities	<u>52,640,982</u>	<u>55,214,234</u>
Net Assets		
Invested in capital assets, net of related debt	13,852,113	12,851,588
Restricted	1,623,083	1,863,140
Unrestricted	<u>2,117,665</u>	<u>3,785,678</u>
Total net assets	<u>\$ 17,592,861</u>	<u>\$ 18,500,406</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the School District's assets exceeded liabilities by \$17,592,861, a decrease of \$907,545 from net assets at June 30, 2011. The decrease in current assets of \$3,231,198 is largely attributable to a significant reduction in cash and cash equivalents. This is due in part to an additional pay period for salaries and wages during the fiscal year, as well as increased demand on the District's cash resources to cover rising healthcare premiums.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2012. Capital assets include land and construction in progress, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$1,623,083, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$740,943 is restricted for debt service payments; \$261,629 is restricted for capital projects; \$3,374 is restricted for scholarships and

Kent City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

\$617,137 is restricted for other purposes. The remaining significant balance of government-wide unrestricted net assets of \$2,117,665 may be used to meet the government's ongoing obligations to students and staff. Table 2 shows change in net assets for fiscal years 2012 and 2011.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for services	\$ 4,295,657	\$ 4,459,036
Operating grants, contributions and interest	4,578,074	5,199,167
General revenues:		
Property taxes	22,509,320	20,719,439
Grants and entitlements	16,949,074	17,924,691
Investment earnings	21,897	31,616
Gain on sale of capital assets	21,045	-
Miscellaneous	26,258	25,464
Capital contributions	10,522	13,185
Total revenues	<u>48,411,847</u>	<u>48,372,598</u>
Program Expenses		
Instruction:		
Regular	20,244,280	19,935,898
Special	5,360,239	5,630,098
Vocational	2,146,622	2,222,055
Adult/continuing	35,396	45,589
Student intervention services	503,054	461,651
Other	470,468	542,413
Support services:		
Pupils	2,752,207	2,599,427
Instructional staff	2,907,025	2,851,698
Board of education	178,356	213,430
Administration	3,132,240	3,191,029
Fiscal	1,006,637	950,922
Business	387,029	381,722
Operation and maintenance of plant	3,492,610	3,299,408
Pupil transportation	1,960,621	1,837,529
Central	410,065	343,123
Operation of non-instructional services:		
Food service operations	1,432,495	1,352,612
Community services	344,351	482,704
Extracurricular activities	1,338,051	1,204,464
Interest and fiscal charges	1,217,646	1,232,814
Total expenses	<u>49,319,392</u>	<u>48,778,586</u>
Change in net assets	(907,545)	(405,988)
Net assets at beginning of year	<u>18,500,406</u>	<u>18,906,394</u>
Net assets at end of year	<u>\$ 17,592,861</u>	<u>\$ 18,500,406</u>

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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Governmental Activities

Several revenue sources fund governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$22.5 million in 2012, representing an increase of \$1,789,881 from 2011. The increase in property taxes represents the change in property tax accruals from 2011, where a significant decrease was reported from amounts available as an advance in 2010. In addition, the amount of property taxes available as an advance and recognized as revenue for 2012 was \$1,963,465, which is an increase of \$90,928 from 2011. General revenues from grants and entitlements, such as the school foundation program, generated over \$16.9 million, which is a noteworthy decrease from the prior year. This decrease was due mainly from significant federal grants received in 2011 as part of the federal stimulus program. With the combination of taxes and intergovernmental funding comprising approximately 81.4% 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 \$28,760,059, or 58.3% 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 \$5,659,232, or 11.5% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$4,704,262, or 9.5% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of the School District's buildings, grounds and equipment. Current year expenses of \$3,492,610 made up 7.1% of all governmental expenses.

Pupil transportation is related primarily to the activities at the School District's bus garage. This amount mainly includes salaries and wages, maintenance, fuel costs and depreciation of related vehicles, equipment and buildings. For 2012, this expense is \$1,960,621 or 4.0% of all governmental expenses.

A significant component of unrestricted net assets is the general obligation debt outstanding that was issued on behalf of the Kent Free Library. The carrying value of this debt is \$10,568,609, which includes the principal, accretion and premium associated with this debt.

The *Statement of Activities* shows the cost of program services and the charges for services and grants and contributions offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2012 and 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Kent City School District

Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2012</u>	Net Cost of Services <u>2011</u>
Program Expenses				
Instruction:				
Regular	\$ 20,244,280	\$ 19,935,898	\$ (17,190,145)	\$ (17,072,518)
Special	5,360,239	5,630,098	(4,177,136)	(3,829,790)
Vocational	2,146,622	2,222,055	(1,331,778)	(1,282,020)
Adult/continuing	35,396	45,589	3,236	6,427
Student intervention services	503,054	461,651	(503,054)	(392,655)
Other	470,468	542,413	(470,468)	(542,413)
Support services:				
Pupils	2,752,207	2,599,427	(2,546,554)	(2,351,041)
Instructional staff	2,907,025	2,851,698	(2,007,203)	(1,962,151)
Board of education	178,356	213,430	(178,356)	(213,430)
Administration	3,132,240	3,191,029	(3,046,172)	(3,013,123)
Fiscal	1,006,637	950,922	(1,006,637)	(950,922)
Business	387,029	381,722	(387,029)	(381,722)
Operation and maintenance of plant	3,492,610	3,299,408	(3,351,491)	(3,140,669)
Pupil transportation	1,960,621	1,837,529	(1,847,077)	(1,753,119)
Central	410,065	343,123	(395,047)	(178,783)
Operation non-instructional services:				
Food service operations	1,432,495	1,352,612	414	42,983
Community services	344,351	482,704	(12,909)	(192,694)
Extracurricular activities	1,338,051	1,204,464	(780,609)	(679,929)
Interest and fiscal charges	1,217,646	1,232,814	(1,217,646)	(1,232,814)
Total	<u>\$ 49,319,392</u>	<u>\$ 48,778,586</u>	<u>\$ (40,445,661)</u>	<u>\$ (39,120,383)</u>

The dependence upon tax revenues for governmental activities is apparent with only 18.0% of governmental expenses supported by program revenues.

The School District's Funds

The School District's funds are accounted for using the modified accrual basis of accounting. The total revenues are \$48,675,365 and total expenditures are \$49,576,783. The total net change in fund balance across all governmental funds was a decrease of \$880,373. The general fund reported a net decrease in fund balance amounting to \$838,432 or 5.2%. The decrease is due to current year expenditures exceeding current year revenues for the general fund. Net decreases across all other nonmajor governmental funds amounted to \$41,941, or 2.8%. The increase in expenditures is due in part to an additional pay period for salaries and wages during the fiscal year; however, this was offset by conservative spending throughout the year. The schedule below shows the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

Kent City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 Unaudited

Table 4
 Fund Balances

	Fund Balance June 30, 2012	Fund Balance June 30, 2011	Increase (Decrease)
General	\$ 15,376,433	\$ 16,214,865	\$ (838,432)
Other governmental	1,457,089	1,499,030	(41,941)
Total	<u>\$ 16,833,522</u>	<u>\$ 17,713,895</u>	<u>\$ (880,373)</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 2012, 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 \$40,649,190, which was lower than the original budget estimate of \$40,947,012. This difference of \$297,822, or .7%, is due primarily to a decrease in intergovernmental tax revenues. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized. The actual revenue and other financing sources was \$40,667,610, which was slightly higher than the final budget estimate.

The original expenditures and other financing uses estimate of \$43,411,504 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$42,957,050 or \$454,454 lower than the original. The final appropriation was adjusted at year-end to reflect actual expenditures and encumbrances for the fiscal year. No significant expenditure budget revisions were posted to the general fund during the year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$26,610,310 invested in capital assets. Table 5 shows fiscal year 2012 balances compared to fiscal year 2011:

Kent City School District
 Management's Discussion and Analysis
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 Unaudited

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 1,648,218	\$ 1,648,218
Construction in progress	150,000	101,099
Land improvements	254,174	226,851
Buildings and improvements	23,092,513	23,429,738
Furniture, fixtures and equipment	565,271	560,889
Vehicles	<u>900,134</u>	<u>893,114</u>
Total capital assets	<u>\$ 26,610,310</u>	<u>\$ 26,859,909</u>

The total decrease in capital assets is due to current year depreciation expense exceeding acquisitions of the current year. See Note 7 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 \$2,961,990 have a book value of only \$900,134 or approximately 30% of cost. This indicates that the vehicles, in total, are considerably depreciated and perhaps a number of vehicles, such as buses, are approaching the end of their useful lives.

Debt

At June 30, 2012, the School District had general obligation bonds outstanding of \$22,858,921, with \$1,565,000 due within one year. Also, the School District has capital lease obligations of \$1,038,975, with \$112,050 due within one year. The outstanding bond balance reflects a net decrease of \$1,377,494 which is due to the retirement of bonds. The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund.

At June 30, 2012, the School District's overall legal debt margin (the ability to issue additional amounts of general obligation debt) was \$22,279,325, with an unvoted debt margin of \$491,048. See Note 13 to the basic financial statements for detail on the School District's debt activity and long-term obligations.

Current Issues Affecting Financial Condition

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

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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Due to unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the School District's Financial Management

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

Kent City School District
Statement of Net Assets
June 30, 2012

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 18,635,191
Cash and cash equivalents:	
In segregated accounts	7,500
Inventory held for resale	29,929
Materials and supplies inventory	87,822
Deferred charges	158,328
Receivables:	
Accounts	42,122
Intergovernmental	833,205
Taxes	23,829,436
Capital assets:	
Land and construction in progress	1,798,218
Depreciable capital assets, net	24,812,092
Total capital assets	<u>26,610,310</u>
Total assets	<u>70,233,843</u>
<u>Liabilities:</u>	
Accounts payable	299,877
Accrued wages	2,606,259
Intergovernmental payable	1,343,002
Undistributed monies	4,298
Accrued interest payable	80,723
Claims payable	869,296
Deferred revenue	20,542,548
Long-term liabilities:	
Due within one year	2,354,231
Due in more than one year	24,540,748
Total liabilities	<u>52,640,982</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	13,852,113
Restricted for:	
Capital outlay	261,629
Debt service	740,943
Permanent fund purpose - scholarships	
Expendable	1,874
Nonexpendable	1,500
Other purposes	617,137
Unrestricted	<u>2,117,665</u>
Total net assets	<u>\$ 17,592,861</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenues and Changes in Net Assets
				Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$ 20,244,280	\$ 2,081,200	\$ 972,935	\$ (17,190,145)
Special	5,360,239	193,077	990,026	(4,177,136)
Vocational	2,146,622	814,244	600	(1,331,778)
Adult/continuing	35,396	38,632	-	3,236
Student intervention services	503,054	-	-	(503,054)
Other	470,468	-	-	(470,468)
Support services:				
Pupils	2,752,207	-	205,653	(2,546,554)
Instructional staff	2,907,025	1,000	898,822	(2,007,203)
Board of education	178,356	-	-	(178,356)
Administration	3,132,240	-	86,068	(3,046,172)
Fiscal	1,006,637	-	-	(1,006,637)
Business	387,029	-	-	(387,029)
Operation and maintenance of plant	3,492,610	141,119	-	(3,351,491)
Pupil transportation	1,960,621	53,123	60,421	(1,847,077)
Central	410,065	618	14,400	(395,047)
Operation of non-instructional services:				
Food service operations	1,432,495	531,218	901,691	414
Community services	344,351	80,302	251,140	(12,909)
Extracurricular activities	1,338,051	361,124	196,318	(780,609)
Interest and fiscal charges	1,217,646	-	-	(1,217,646)
Total governmental activities	<u>\$ 49,319,392</u>	<u>4,295,657</u>	<u>4,578,074</u>	<u>(40,445,661)</u>

General Revenues:

Property taxes levied for:	
General purposes	20,203,521
Debt service	2,305,799
Grants and entitlements not restricted to specific programs	16,949,074
Investment earnings	21,897
Gain on sale of capital asset	21,045
Miscellaneous	26,258
Capital contributions	10,522
Total general revenues	<u>39,538,116</u>
Change in net assets	(907,545)
Net assets at beginning of year	18,500,406
Net assets at end of year	<u>\$ 17,592,861</u>

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 17,214,510	\$ 1,357,036	\$ 18,571,546
Cash and cash equivalents:			
In segregated accounts	-	7,500	7,500
Inventory held for resale	-	29,929	29,929
Materials and supplies inventory	83,333	4,489	87,822
Receivables:			
Accounts	41,380	742	42,122
Intergovernmental	342,801	490,404	833,205
Interfund	97,586	-	97,586
Taxes	21,447,254	2,382,182	23,829,436
Total assets	<u>\$ 39,226,864</u>	<u>\$ 4,272,282</u>	<u>\$ 43,499,146</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 145,496	\$ 154,381	\$ 299,877
Accrued wages	2,426,591	179,668	2,606,259
Interfund payable	-	97,586	97,586
Intergovernmental payable	1,277,462	65,540	1,343,002
Deferred revenue	19,996,584	2,318,018	22,314,602
Undistributed monies	4,298	-	4,298
Total liabilities	<u>23,850,431</u>	<u>2,815,193</u>	<u>26,665,624</u>
<u>Fund balances:</u>			
Nonspendable	83,333	35,918	119,251
Restricted	-	1,253,267	1,253,267
Assigned	4,929,396	261,629	5,191,025
Unassigned	10,363,704	(93,725)	10,269,979
Total fund balances	<u>15,376,433</u>	<u>1,457,089</u>	<u>16,833,522</u>
Total liabilities and fund balances	<u>\$ 39,226,864</u>	<u>\$ 4,272,282</u>	<u>\$ 43,499,146</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, 2012

Total governmental fund balances		\$ 16,833,522
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		26,610,310
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,323,423	
Intergovernmental	240,597	
Tuition and fees	<u>208,034</u>	
		1,772,054
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.		(805,651)
Deferred charges are included in the governmental activities in the statement of net assets.		158,328
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(80,723)
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	\$ (21,260,000)	
Capital appreciation, including accretion	(1,393,529)	
Premium	(636,127)	
Unamortized cost of refunding	430,735	
Compensated absences	(2,997,083)	
Capital leases	<u>(1,038,975)</u>	
Total		<u>(26,894,979)</u>
Net assets of governmental activities		<u>\$ 17,592,861</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, 2012

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 20,296,555	\$ 2,324,935	\$ 22,621,490
Intergovernmental	17,018,372	4,506,221	21,524,593
Interest	21,897	371	22,268
Tuition and fees	3,147,552	-	3,147,552
Extracurricular activities	43,686	349,124	392,810
Gifts and donations	1,400	93,142	94,542
Customer services	51,795	532,218	584,013
Rent	202,990	2,013	205,003
Miscellaneous	60,001	23,093	83,094
Total revenues	<u>40,844,248</u>	<u>7,831,117</u>	<u>48,675,365</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	18,593,557	475,714	19,069,271
Special	4,235,189	1,089,682	5,324,871
Vocational	2,067,063	882	2,067,945
Adult/Continuing	35,366	30	35,396
Student intervention services	490,639	1,695	492,334
Other	470,468	-	470,468
Support services:			
Pupils	2,491,121	186,976	2,678,097
Instructional staff	1,894,521	898,867	2,793,388
Board of education	178,356	-	178,356
Administration	3,000,721	86,358	3,087,079
Fiscal	949,952	42,451	992,403
Business	372,690	-	372,690
Operation and maintenance of plant	3,143,990	88,668	3,232,658
Pupil transportation	1,687,394	58,615	1,746,009
Central	386,413	15,904	402,317
Operation of non-instructional services:			
Food service operations	-	1,426,069	1,426,069
Community services	135,879	208,940	344,819
Extracurricular activities	676,567	597,884	1,274,451
Capital outlay	205,510	666,922	872,432
Debt service:			
Principal retirement	142,053	1,530,000	1,672,053
Interest and fiscal charges	49,221	994,456	1,043,677
Total expenditures	<u>41,206,670</u>	<u>8,370,113</u>	<u>49,576,783</u>
Excess of revenues under expenditures	<u>(362,422)</u>	<u>(538,996)</u>	<u>(901,418)</u>
<u>Other financing sources (uses):</u>			
Proceeds from sale of capital assets	4,800	16,245	21,045
Transfers in	-	480,810	480,810
Transfers out	<u>(480,810)</u>	<u>-</u>	<u>(480,810)</u>
Total other financing sources (uses)	<u>(476,010)</u>	<u>497,055</u>	<u>21,045</u>
Net change in fund balances	<u>(838,432)</u>	<u>(41,941)</u>	<u>(880,373)</u>
Fund balances at beginning of year	<u>16,214,865</u>	<u>1,499,030</u>	<u>17,713,895</u>
Fund balances at end of year	<u>\$ 15,376,433</u>	<u>\$ 1,457,089</u>	<u>\$ 16,833,522</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, 2012

Net change in fund balances - total governmental funds \$ (880,373)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlay	\$ 872,432	
Capital contributions	10,522	
Depreciation expense	<u>(1,132,553)</u>	
Excess of capital outlay over depreciation expense		(249,599)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:

Property taxes	\$ (112,170)	
Intergovernmental	(113,736)	
Tuition and fees	<u>(69,179)</u>	
Net change in deferred revenues during the year		(295,085)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,530,000

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 142,053

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	\$ (15,614)	
Decrease in accrued interest	4,297	
Amortization of:		
Issuance cost	(25,760)	
Premium	119,318	
Deferred cost of refunding	(86,124)	
Bond accretion	<u>(185,700)</u>	
Total additional expenditures		(189,583)

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. (964,958)

Change in net assets of governmental activities \$ (907,545)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 19,997,413	\$ 20,195,339	\$ 20,204,590	\$ 9,251
Intergovernmental	17,586,749	17,021,604	17,029,401	7,797
Interest	29,000	21,897	21,897	-
Tuition and fees	2,914,776	2,994,203	2,995,575	1,372
Rent	144,514	141,656	141,656	-
Gifts and donations	1,005	1,400	1,400	-
Customer services	22,828	24,433	24,433	-
Miscellaneous	25,480	25,530	25,530	-
Total revenues	40,721,765	40,426,062	40,444,482	18,420
Expenditures:				
Current:				
Instruction:				
Regular	19,310,581	18,928,043	18,928,043	-
Special	4,173,435	4,334,069	4,334,069	-
Vocational	2,298,488	2,162,310	2,162,310	-
Student intervention services	420,524	491,456	491,456	-
Other	538,992	470,468	470,468	-
Support services:				
Pupils	2,563,048	2,628,258	2,628,258	-
Instructional staff	2,019,311	1,968,524	1,968,524	-
Board of education	199,855	180,652	180,652	-
Administration	3,292,956	3,214,928	3,214,928	-
Fiscal	989,641	971,273	971,273	-
Business	397,759	387,427	387,427	-
Operation and maintenance of plant	3,296,390	3,264,085	3,264,085	-
Pupil transportation	1,836,885	1,866,059	1,866,059	-
Central	332,059	371,752	371,752	-
Operation of non-instructional services:				
Community services	114,707	30,929	30,929	-
Extracurricular activities	713,887	673,259	673,259	-
Capital outlay	132,676	181,354	181,354	-
Total expenditures	42,631,194	42,124,846	42,124,846	-
Excess of revenues under expenditures	(1,909,429)	(1,698,784)	(1,680,364)	18,420
Other financing sources (uses):				
Proceeds from sale of fixed assets	150	83	83	-
Refund of prior year expenditures	75,100	73,048	73,048	-
Refund of prior year receipts	(6,500)	(308)	(308)	-
Advances in	149,997	149,997	149,997	-
Advances out	(150,000)	(230,586)	(230,586)	-
Transfers out	(623,810)	(601,310)	(601,310)	-
Total other financing sources (uses)	(555,063)	(609,076)	(609,076)	-
Net change in fund balance	(2,464,492)	(2,307,860)	(2,289,440)	18,420
Fund balance at beginning of year	18,372,627	18,372,627	18,372,627	-
Prior year encumbrances appropriated	470,328	470,328	470,328	-
Fund balance at end of year	\$ 16,378,463	\$ 16,535,095	\$ 16,553,515	\$ 18,420

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2012

	<u>Self Insurance</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 63,645</u>
<u>Liabilities:</u>	
Claims payable	<u>869,296</u>
<u>Net assets:</u>	
Unrestricted	<u>(805,651)</u>
Total liabilities and net assets	<u><u>\$ 63,645</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2012

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 4,763,229
Other	87,446
Total operating revenues	<u>4,850,675</u>
<u>Operating expenses:</u>	
Purchased services	546,770
Claims	5,268,863
Total operating expenses	<u>5,815,633</u>
Change in net assets	(964,958)
Net assets at beginning of year	159,307
Net assets at end of year	<u>\$ (805,651)</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, 2012

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from other operating sources	\$ 87,446
Cash received for charges for services	4,763,229
Cash payments to suppliers for goods and services	(546,770)
Cash payments for claims	<u>(4,734,382)</u>
Net cash used for operating activities	<u>(430,477)</u>
 Net decrease in cash and cash equivalents	 (430,477)
 Cash and cash equivalents at beginning of year	 <u>494,122</u>
Cash and cash equivalents at end of year	<u>\$ 63,645</u>
 <u>Reconciliation of operating loss to net cash used for operating activities:</u>	
Operating loss	<u>\$ (964,958)</u>
 Adjustments to reconcile operating loss to net cash used for operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	144,678
Increase (decrease) in liabilities:	
Claims payable	<u>389,803</u>
Total adjustments	<u>534,481</u>
Net cash used for operating activities	<u>\$ (430,477)</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 108,341
Total assets	<u>\$ 108,341</u>
<u>Liabilities:</u>	
Accounts payable	\$ 3,216
Due to students	105,125
Total liabilities	<u>\$ 108,341</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, 2012

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 175 non-certificated employees and 365 certificated teaching and support personnel who provide services to 3,374 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 State 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, 2012.

The School District is associated with the Northeast Ohio Network for Educational Technology (NEOnet), the Six District Educational Compact, and the Ohio Schools Council, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 15. In addition, the School District is associated with the Kent Free Library and Kent Digital Academy, which are defined as related organizations, as more fully explained in Note 16.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012

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.

The other governmental funds of the School District account for grants and other resources of the School District to which the School District is bound to observe constraints imposed upon the use of the resources.

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, 2012

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, 2012

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, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

D. Budgets and Budgetary Accounting

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

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2012. 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, 2012

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to certificates of deposit, overnight repurchase agreements, and interest in STAR Ohio, the State Treasurer's Investment Pool. All investments of the School District had a maturity of two years or less. These investments are stated at cost, which approximates market value (fair value). Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as explained in Note 4.

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

F. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. For the fiscal year 2012, there were no prepaid items reported.

G. Interfund Balances

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

H. Inventory

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

I. Capital Assets

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	6 - 8 years

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

L. Fund Balance

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

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

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

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

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

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

M. Net Assets

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

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

N. Operating Revenues and Expenses

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

O. Interfund Transactions

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

P. Estimates

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 – FUND BALANCES

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

Fund Balances	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>			
Materials and supplies inventory	\$ 83,333	\$ 4,489	\$ 87,822
Inventory held for resale	-	29,929	29,929
Scholarships	-	1,500	1,500
Total nonspendable	<u>83,333</u>	<u>35,918</u>	<u>119,251</u>
<u>Restricted for</u>			
Food service	-	258,195	258,195
Athletics and music	-	87,711	87,711
Auxiliary services	-	56,717	56,717
Endowments	-	1,874	1,874
Special trusts	-	67,092	67,092
Local grants	-	73,913	73,913
Federal grants	-	10,937	10,937
Debt service payments	-	696,828	696,828
Total restricted	<u>-</u>	<u>1,253,267</u>	<u>1,253,267</u>
<u>Assigned</u>			
Public school support	57,930	-	57,930
Permanent improvements	-	261,629	261,629
Encumbrances	305,762	-	305,762
Next fiscal year budget	4,565,704	-	4,565,704
Total assigned	<u>4,929,396</u>	<u>261,629</u>	<u>5,191,025</u>
Unassigned (deficit)	<u>10,363,704</u>	<u>(93,725)</u>	<u>10,269,979</u>
Total fund balances	<u>\$ 15,376,433</u>	<u>\$ 1,457,089</u>	<u>\$ 16,833,522</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 3 - 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. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

	<u>General</u>
GAAP basis	\$ (838,432)
Net adjustment for revenue accruals	(10,449)
Advances in	149,997
Net adjustment for expenditure accruals	(974,645)
Advances out	(230,586)
Encumbrances (Budget basis) outstanding at year-end	(460,724)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(320,986)
Transfers from general fund	(120,500)
Expenditures	516,885
Budget basis	<u>\$ (2,289,440)</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

A. Cash on Hand

At fiscal year-end, the School District had \$1,250 in undeposited cash on hand in various Board-approved change and petty cash accounts 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 \$3,534,249. The School District's bank balance of \$3,809,697 was not exposed to custodial credit risk.

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	\$ 13,085,000	Daily	AAA ⁽¹⁾
STAR Ohio	<u>2,130,533</u>	52.5 ⁽³⁾	AAAm ⁽²⁾
	<u>\$ 15,215,533</u>		

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

⁽²⁾ Standard and Poor's rating

⁽³⁾ Days (Average)

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

All interest is legally required to be placed in the general, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$21,897, which includes \$1,640 assigned from other School District funds.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 \$13,085,000 investment in repurchase agreements is to be secured by the specific securities upon which the repurchase agreements are based. As of June 30, 2012, the underlying investments were Federal National Mortgage Association (FNMA) bonds. 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.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 10 percent of the School District's investments are in FNMA bonds, which are the underlying investment of the repurchase agreement. The School District places no limit on the amount that may be invested in any one issuer. These investments were equal to 86% of all investments held by the School District at June 30, 2012.

NOTE 5 - PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2011. The tax was phased out by reducing the assessment rate on the property over several years. The bill provided reimbursements to the School District equivalent to the revenue lost due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. House Bill No. 153 was signed into law on June 30, 2011. This bill dramatically reduced these reimbursements to the School District.

The School District receives property taxes from Portage County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012, was \$1,758,586 in the general fund, and \$204,879 in the bond retirement debt service fund. The amount available as an advance at June 30, 2011, was \$1,666,621 in the general fund, and \$205,916 in the bond retirement debt service fund.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

<u>Property Category</u>	2011 <u>Assessed Value</u>	2010 <u>Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 359,644,470	\$ 359,761,450
Commercial, industrial and minerals	121,656,280	122,240,010
Public utilities	235,980	217,940
<u>Tangible Personal Property</u>		
Public utilities	<u>9,511,220</u>	<u>9,170,120</u>
Total	<u>\$ 491,047,950</u>	<u>\$ 491,389,520</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition, fees and other miscellaneous), 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 fees and other miscellaneous reimbursements of \$42,122. Also, the general and several special revenue funds recorded intergovernmental receivables for state and federal grants, tuition, excess costs, and reimbursements totaling \$833,205.

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

Governmental Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 1,648,218	\$ -	\$ -	\$ 1,648,218
Construction in progress	<u>101,099</u>	<u>208,660</u>	<u>(159,759)</u>	<u>150,000</u>
Total capital assets, not being depreciated	<u>1,749,317</u>	<u>208,660</u>	<u>(159,759)</u>	<u>1,798,218</u>
Capital assets, being depreciated:				
Land improvements	465,370	51,800	-	517,170
Buildings and improvements	38,973,624	456,729	-	39,430,353
Furniture, fixtures and equipment	2,486,940	100,827	-	2,587,767
Vehicles	<u>2,925,937</u>	<u>224,697</u>	<u>(188,644)</u>	<u>2,961,990</u>
Total capital assets, being depreciated	<u>44,851,871</u>	<u>834,053</u>	<u>(188,644)</u>	<u>45,497,280</u>
Less: Accumulated depreciation				
Land improvements	(238,519)	(24,477)	-	(262,996)
Buildings and improvements	(15,543,886)	(793,954)	-	(16,337,840)
Furniture, fixtures and equipment	(1,926,051)	(96,445)	-	(2,022,496)
Vehicles	<u>(2,032,823)</u>	<u>(217,677)</u>	<u>188,644</u>	<u>(2,061,856)</u>
Total accumulated depreciation	<u>(19,741,279)</u>	<u>(1,132,553)</u>	<u>188,644</u>	<u>(20,685,188)</u>
Total capital assets being depreciated, net	<u>25,110,592</u>	<u>(298,500)</u>	<u>-</u>	<u>24,812,092</u>
Governmental activities capital assets, net	<u>\$ 26,859,909</u>	<u>\$ (89,840)</u>	<u>\$ (159,759)</u>	<u>\$ 26,610,310</u>

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 692,766
Special	843
Vocational	15,322
Support services:	
Instructional staff	3,631
Administration	9,495
Fiscal	1,340
Business	8,480
Operation and maintenance of plant	159,182
Pupil transportation	203,373
Central	1,448
Food service operations	5,882
Extracurricular activities	<u>30,791</u>
Total depreciation expense	<u>\$ 1,132,553</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2012 consisted of the following:

Due to general fund from:	
Nonmajor governmental funds	\$ 97,586

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, 2012, all interfund loans outstanding are anticipated to be repaid in fiscal year 2013.

B. Transfers at June 30, 2012 consisted of the following:

Transfers to nonmajor governmental funds from:	
General fund	\$ 480,810

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 9 - 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 \$869,296, reported in the fund at year end was estimated by the third party administrator and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund's claims liability during 2011 and 2012 were:

	Year ended <u>6/30/2011</u>	Year ended <u>6/30/2012</u>
Unpaid claims, beginning of fiscal year	\$ 433,703	\$ 479,493
Incurred claims (including IBNRs)	4,698,637	5,124,185 *
Claim payments	<u>(4,652,847)</u>	<u>(4,734,382)</u>
Unpaid claims, end of fiscal year	<u>\$ 479,493</u>	<u>\$ 869,296</u>

* Refunds on prior year and current year expenses of \$144,678 related to the stop-loss coverage were received in the current and subsequent period. These refunds are netted against claims incurred.

C. Worker's Compensation

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the system. For fiscal year 2011 (latest information available), 11.81 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$701,295, \$780,406 and \$921,277 respectively; 60 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Funding Policy - For the fiscal year ended June 30, 2011 (latest information available), 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 2011 (latest information available), the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$3,079,938, \$3,154,038, and \$3,055,758 respectively; 83.5 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$85,967 made by the School District and \$120,354 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

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

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$139,701, \$151,050, and \$121,841 respectively; 71.7 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011 (latest information available), this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$45,130, \$50,221, and \$54,786 respectively; 60 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011 (latest information available), 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, 2012, 2011, and 2010 were \$236,918, \$242,618, and \$235,058 respectively; 83.5 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 12 - STATUTORY RESERVES

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

	Capital Maintenance <u>Reserve</u>
Set-aside cash balance as of June 30, 2011	\$ -
Current year set-aside requirement	578,666
Qualifying disbursements	<u>(1,740,603)</u>
Total	\$ <u>(1,161,937)</u>
Balance carried forward to future years	<u><u>-</u></u>

Kent City School District

Notes to the Basic Financial Statements
 For the Fiscal Year Ended June 30, 2012

Effective July 1, 2011, the textbook set aside is no longer required as the obligation was repealed by the 129th General Assembly in Amended Substitute House Bill 30.

Although the School District had qualifying disbursements and current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

NOTE 13 – 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, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
2004 Library bonds					
Serial and term bonds	\$ 10,515,000	\$ -	\$ (445,000)	\$ 10,070,000	\$ 460,000
Capital appreciation bonds	239,996	-	-	239,996	-
Accretion on bonds	142,132	25,316	-	167,448	-
Premium	101,288	-	(10,123)	91,165	-
2004 School improvement refunding					
Serial and term bonds	10,600,000	-	(895,000)	9,705,000	905,000
Capital appreciation bonds	49,999	-	-	49,999	-
Accretion on bonds	303,724	124,316	-	428,040	-
Premium	595,097	-	(99,160)	495,937	-
Unamortized deferred cost of refunding	(516,859)	-	86,124	(430,735)	-
2007 Refunding bonds					
Serial and term bonds	1,675,000	-	(190,000)	1,485,000	200,000
Capital appreciation bonds	364,996	-	-	364,996	-
Accretion on bonds	106,982	36,068	-	143,050	-
Premium	59,060	-	(10,035)	49,025	-
Total Bonds	<u>24,236,415</u>	<u>185,700</u>	<u>(1,563,194)</u>	<u>22,858,921</u>	<u>1,565,000</u>
<u>Other Obligations</u>					
Compensated absences	2,981,469	769,586	(753,972)	2,997,083	677,181
Capital leases payable	1,181,028	-	(142,053)	1,038,975	112,050
Total other liabilities	<u>4,162,497</u>	<u>769,586</u>	<u>(896,025)</u>	<u>4,036,058</u>	<u>789,231</u>
Governmental activities long-term liabilities	<u>\$ 28,398,912</u>	<u>\$ 955,286</u>	<u>\$ (2,459,219)</u>	<u>\$ 26,894,979</u>	<u>\$ 2,354,231</u>

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

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

During fiscal year 2004, the School District issued bonds on behalf of the Kent Free Library. Also, during fiscal year 2005 the School District issued school improvement refunding bonds. All of these bond issues (including the ones issued in 2007) include serial and capital appreciation bonds. Current year additions amounted to \$25,316, \$124,316, and \$36,068 respectively, which represent the accretion of discounted interest. The final amounts including accreted interest of the 2004 library bonds and 2004 refunding capital appreciation bonds will be \$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 3.25% for the capital appreciation bonds. The bonds were used to refund \$13.6 million of outstanding School Improvement Bonds with an average interest rate of 5.1%. The net proceeds of \$14.9 million (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. Furthermore, the old debt was called and redeemed prior to the issuance of this report. The difference between the reacquisition price and the net carrying amount of the old debt was significant and will be amortized over the life of the new bonds using the bonds outstanding method of amortization. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Principal and interest requirements to amortize all bonds outstanding at June 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 1,565,000	\$ 941,363	\$ 2,506,363
2014	1,558,660	953,203	2,511,863
2015	662,515	1,888,585	2,551,100
2016	1,358,816	1,167,328	2,526,144
2017	1,770,000	734,938	2,504,938
2018-2022	9,820,000	2,300,306	12,120,306
2023-2027	3,680,000	722,925	4,402,925
2028-2029	<u>1,500,000</u>	<u>60,137</u>	<u>1,560,137</u>
Total	<u>\$ 21,914,991</u>	<u>\$ 8,768,785</u>	<u>\$ 30,683,776</u>

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a previous fiscal year, the School District entered into capitalized lease agreements for the acquisition of copiers and a district-wide energy conservation project. These leases meet the criteria of capital leases as defined by the Financial Accounting Standards Board’s Accounting Standards Codification 840 which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by the lease have been capitalized as equipment in the amount of \$1,685,122. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$142,053.

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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Fiscal <u>Year</u>	Lease <u>Payments</u>
2013	\$ 155,005
2014	136,025
2015	128,201
2016	128,201
2017	128,201
2018-2022	<u>595,635</u>
Total minimum lease payments	1,271,268
Less: amount representing interest	<u>(232,293)</u>
Total	<u>\$ 1,038,975</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Northeast Ohio Network for Educational Technology (NEOnet) is the Computer Service Organization or Information Technology Center (ITC) used by the School District. NEOnet is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Metropolitan Regional Service Council acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All school districts in the consortium are required to pay fees, charges and assessments as charged. NEOnet is governed by a board made up of superintendents (or designees) from all of the participating school districts. An elected Executive Board consisting of nine members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2012, the School District contributed \$105,287 to NEOnet. This contribution includes purchases of software and related items as well as payment for services. Financial information can be obtained by contacting the fiscal agent at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

The Six District Educational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. During fiscal year 2012, the School District contributed a nominal amount to the Six District Educational Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Ohio Schools Council Association (Council) is a jointly governed organization among 157 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2012 the School District paid \$196,312 to the Council in the form of gas purchases. Financial information can be obtained by contacting David Cottrell, the Executive Directive/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

NOTE 16 - RELATED ORGANIZATIONS

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

During fiscal year 2012, the School District received a nominal amount from Kent Digital Academy as a final payment for fees for services provided. The Academy reported their liquidation as part of their basic financial statements dated June 30, 2011 and has not prepared a report for this fiscal period.

NOTE 17 - CONTINGENCIES

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

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

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, 2012.

Kent City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 18 – ACCOUNTABILITY

As of June 30, 2012, 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:

Alternative schools	\$	258
Education jobs		24,915
Title VI-B		29,880
Race to the Top		218
Title I		30,394
Improving teacher quality		8,060

December 7, 2012

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, Portage County, Ohio (the "School District") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Kent City School District
Independent Auditor's Report on Internal Control Over
Financial Reporting and On Compliance and Other Matters
Based On an Audit of Financial Statements Performed In
Accordance with Government Auditing Standards
December 7, 2012
Page 2

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.

December 7, 2012

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

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

Compliance

We have audited the compliance of Kent City School District, Portage County, Ohio (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Kent City School District
Independent Auditor's Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major
Program And Internal Control Over Compliance In Accordance With
OMB Circular A-133

December 7, 2012

Page 2

Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.

Rea & Associates, Inc.

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Program Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program (A)	2012	10.553	\$ 184,099	\$ 184,099
National School Lunch Program (A)	2012	10.555	473,037	473,037
Food Commodity Distribution (B)	2012	10.555	57,008	57,008
Total Child Nutrition Cluster			714,144	714,144
Total U.S. Department of Agriculture			714,144	714,144
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	2011	84.027	41,078	97,518
	2012	84.027	697,124	703,153
ARRA - Special Education - Grants to States (IDEA Part B)	2011	84.391	71,007	72,970
Total Special Education - Grants to States (IDEA Part B)			809,209	873,641
Special Education - Preschool Grants	2011	84.173	4,731	4,827
	2012	84.173	26,739	26,679
ARRA - Special Education - Preschool Grants	2011	84.392	(40)	1,506
Total Special Education - Preschool Grants			31,430	33,012
Total Special Education Cluster			840,639	906,653
Grants to Local Educational Agencies (Title I)	2011	84.010	90,965	93,585
	2012	84.010	744,291	765,815
ARRA - Grants to Local Educational Agencies (Title I)	2011	84.389	85,198	87,223
Total Grants to Local Educational Agencies (Title I) Cluster			920,454	946,623
Safe and Drug Free Schools (Title IV-A)	2011	84.186	(1)	2,921
Technology Literacy Quality State Grants (Title II-D)	2011	84.318	0	300
	2012	84.318	9,226	1,308
ARRA - Technology Literacy Quality State Grants (Title II-D)	2011	84.386	15,355	27,892
Total Technology Literacy Quality State Grants (Title II-D)			24,581	29,500
English Language Acquisition Grants (Title III)	2011	84.365	(48)	1,134
	2012	84.365	18,045	9,658
Total English Language Acquisition Grants (Title III)			17,997	10,792
Improving Teacher Quality State Grants (Title II-A)	2011	84.367	37,922	38,744
	2012	84.367	174,162	176,588
Total Improving Teacher Quality State Grants (Title II-A)			212,084	215,332
ARRA - State Fiscal Stabilization Fund	2011	84.394	0	160,208
ARRA - Race to the Top	2011	84.395	7,878	12,516
	2012	84.395	79,770	97,145
Total ARRA - Race to the Top			87,648	109,661
Education Jobs	2012	84.410	696,619	724,304
Consolidated Admin (reimbursement)	2012	84.XXX	316	316
<i>Passed Through Summit County Educational Service Center:</i>				
Foreign Lang Assist Program-FLAP	2012	84.293	6,129	6,129
<i>Passed Through Six District Educational Compact:</i>				
Vocational Education - Basic Grants to State	2012	84.048	75,895	75,895
Total U.S. Department of Education			2,882,361	3,188,334
U.S. ENVIRONMENTAL PROTECTION AGENCY				
<i>Passed Through the Ohio Environmental Protection Agency:</i>				
Clean Diesel Grant Program	2012	66.040	3,171	13,741
Total U.S. Environmental Protection Agency			3,171	13,741
Totals			\$ 3,599,676	\$ 3,916,219

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

**Kent City School District
Portage County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2012*

Note A - Child Nutrition Cluster

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

Note B – Food Donation Program

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

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfers:

CFDA Number	Program Title	Program Year	Transfers Out	Transfers In
84.318	Technology Literacy Quality State Grants (Title II-D)	2011	\$ 180	
84.318	Technology Literacy Quality State Grants (Title II-D)	2012		\$ 180

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2012**

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): Education Jobs Nutrition Cluster ARRA - State Fiscal Stabilization	CFDA #84.410 CFDA #10.553, #10.555 CFDA #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Dave Yost • Auditor of State

KENT CITY SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 5, 2013**