

Kent City School District
Portage County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2013



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, 2012 through June 30, 2013. 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 31, 2014

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KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
For the Year Ended June 30, 2013
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December 3, 2013

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

Independent Auditor's Report

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 19, the School District restated their June 30, 2012 net position balances to account for the implementation of GASB Statement No. 63 and GASB Statement No. 65. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 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.

Other Information

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 schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013 on our consideration of the School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District's internal control over financial reporting and compliance.

Rea & Associates, Inc.

New Philadelphia, Ohio

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Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of Kent City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. 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 2013 are as follows:

- Net position of governmental activities decreased by \$3,019,265 from 2012.
- General revenues accounted for \$38,730,749 in revenue or 82.2% of all revenues. Program revenues in the form of charges for services, operating grants, contributions and interest accounted for \$8,361,256 or 17.8% of total revenues of \$47,092,005.
- The School District had \$50,111,270 in expenses related to governmental activities; only \$8,361,256 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$38,730,749 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$13,116,214, a decrease of \$3,717,308 from 2012.
- During the year, the School District refunded \$8,645,000 of the 2004 Library Bonds and \$7,845,000 of the 2004 School Improvement Refunding Bonds.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 Position* 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 the 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, 2013

Unaudited

Reporting the School District as a Whole

Statement of Net Position 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 2013?" The *Statement of Net Position* 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 position and changes in this position. This change in net position 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 Position* 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 11. 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 Position* 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, 2013
 Unaudited

The School District as a Whole

Recall that the *Statement of Net Position* 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 position for 2013 compared to 2012:

	Table 1 Net Position	
	<u>Governmental Activities</u>	
	<u>2013</u>	Restated <u>2012</u>
Assets		
Current and other assets	\$ 44,062,183	\$ 43,465,205
Capital assets, net of depreciation	25,894,705	26,610,310
Total assets	<u>69,956,888</u>	<u>70,075,515</u>
Deferred outflows of resources		
Deferred charge on refunding	38,786	430,735
Liabilities		
Current and other liabilities	5,450,769	5,203,455
Long-term liabilities:		
Due within one year	2,860,263	2,354,231
Due in more than one year	24,589,462	24,971,483
Total liabilities	<u>32,900,494</u>	<u>32,529,169</u>
Deferred inflows of resources		
Property taxes	22,679,912	20,542,548
Net Position		
Net investment in capital assets	13,565,064	13,852,113
Restricted	1,899,268	1,623,083
Unrestricted	(1,049,064)	1,959,337
Total net position	<u>\$ 14,415,268</u>	<u>\$ 17,434,533</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School District's assets exceeded liabilities by \$14,415,268, a decrease of \$3,019,265 from net position at June 30, 2012. The increase of \$2,137,364 in deferred inflows of resources for property taxes explains a large portion of the decrease in net position. A reduction of intergovernmental revenue and increase in several program expenses also contributed to this decrease in net position as explained below.

Kent City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
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Capital assets reported on the government-wide statements represent the largest portion of the School District's net position for fiscal year 2013. 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 position, \$1,899,268, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted positions, \$1,180,977 is restricted for debt service payments; \$3,378 is restricted for scholarships and \$714,913 is restricted for other purposes. The remaining significant balance of government-wide unrestricted net position of \$(1,049,064) indicates a deficit of what can be used to meet the government's ongoing obligations to students and staff. However, this deficit is primarily from the School District carrying the bonds related to the library at \$10,917,937. The School District collects bond levy proceeds related to the Library bonds and makes the debt service payments.

Table 2 shows change in net position for fiscal years 2013 and 2012.

Table 2
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues:		
Charges for services	\$ 4,361,806	\$ 4,295,657
Operating grants, contributions and interest	3,999,450	4,578,074
General revenues:		
Property taxes	22,606,084	22,509,320
Grants and entitlements	16,043,039	16,949,074
Investment earnings	23,664	21,897
Gain on sale of capital assets	-	21,045
Miscellaneous	57,962	26,258
Capital contributions	-	10,522
Total revenues	<u>47,092,005</u>	<u>48,411,847</u>

Continued

Kent City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2 (Continued)
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Program Expenses		
Instruction:		
Regular	20,269,464	20,244,280
Special	6,486,017	5,360,239
Vocational	1,958,262	2,146,622
Adult/continuing	47,016	35,396
Student intervention services	473,587	503,054
Other	555,704	470,468
Support services:		
Pupils	2,872,413	2,752,207
Instructional staff	1,626,881	2,907,025
Board of education	155,761	178,356
Administration	3,393,617	3,132,240
Fiscal	1,122,685	1,006,637
Business	285,401	387,029
Operation and maintenance of plant	3,426,166	3,492,610
Pupil transportation	1,934,159	1,960,621
Central	83,133	410,065
Operation of non-instructional services:		
Food service operations	1,265,387	1,432,495
Community services	411,754	344,351
Shared services	176,359	-
Extracurricular activities	1,214,049	1,338,051
Interest and fiscal charges	2,146,580	1,217,646
Issuance costs	206,875	-
Total expenses	<u>50,111,270</u>	<u>49,319,392</u>
Change in net position	(3,019,265)	(907,545)
Restatement	-	(158,328)
Net position at beginning of year	<u>17,434,533</u>	<u>18,500,406</u>
Net position at end of year	<u>\$ 14,415,268</u>	<u>\$ 17,434,533</u>

Governmental Activities

Several revenue sources fund governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$22.6 million in 2013, representing an increase of \$96,764 from 2012. General revenues from grants and entitlements, such as the school foundation program, generated over \$16.0 million, which is a noteworthy decrease from the prior year. This decrease was due mainly from a reduction in State aid. The State reduced the amounts provided as relief from the phase out of tangible personal property tax revenue.

Kent City School District

Management's Discussion and Analysis
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In addition, expenses increased across several programs from an approximate 30% increase in healthcare costs compared to the prior year. The decrease in instructional support is a result of personnel related costs that is now reported in other accounts from changes recommended by the Ohio Department of Education. Interest and fiscal charges reports a notable increase from transactions related to the advance refunding of bonds. Together, these factors resulted in a significant decrease in net position during the year.

With the combination of taxes and intergovernmental funding comprising approximately 82.1% 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 \$29,790,050, or 59.4% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$4,499,294, or 9.0% 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 \$4,957,464, or 9.9% 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 \$3,426,166 made up 6.8% 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 2013, this expense is \$1,934,159 or 3.9% of all governmental expenses.

A significant component of unrestricted net position is the general obligation debt outstanding that was issued on behalf of the Kent Free Library. As mentioned earlier, the carrying value of this debt is \$10,917,937, 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 2013 and 2012. 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
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	Total Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2013</u>	Net Cost of Services <u>2012</u>
Program Expenses				
Instruction:				
Regular	\$ 20,269,464	\$ 20,244,280	\$ (17,209,934)	\$ (17,190,145)
Special	6,486,017	5,360,239	(5,243,984)	(4,177,136)
Vocational	1,958,262	2,146,622	(897,334)	(1,331,778)
Adult/continuing	47,016	35,396	937	3,236
Student intervention services	473,587	503,054	(473,587)	(503,054)
Other	555,704	470,468	(555,704)	(470,468)
Support services:				
Pupils	2,872,413	2,752,207	(2,687,353)	(2,546,554)
Instructional staff	1,626,881	2,907,025	(1,108,531)	(2,007,203)
Board of education	155,761	178,356	(155,761)	(178,356)
Administration	3,393,617	3,132,240	(3,317,562)	(3,046,172)
Fiscal	1,122,685	1,006,637	(1,122,685)	(1,006,637)
Business	285,401	387,029	(285,401)	(387,029)
Operation and maintenance of plant	3,426,166	3,492,610	(3,269,902)	(3,351,491)
Pupil transportation	1,934,159	1,960,621	(1,827,688)	(1,847,077)
Central	83,133	410,065	(63,391)	(395,047)
Operation non-instructional services:				
Food service operations	1,265,387	1,432,495	27,189	414
Community services	411,754	344,351	(113,141)	(12,909)
Shared services	176,359	-	(176,359)	-
Extracurricular activities	1,214,049	1,338,051	(916,368)	(780,609)
Interest and fiscal charges	2,146,580	1,217,646	(2,146,580)	(1,217,646)
Issuance costs	206,875	-	(206,875)	-
Total	<u>\$ 50,111,270</u>	<u>\$ 49,319,392</u>	<u>\$ (41,750,014)</u>	<u>\$ (40,445,661)</u>

The dependence upon tax revenues for governmental activities is apparent with only 16.7% 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 \$46,716,649 and total expenditures are \$49,640,832. The total net change in fund balance across all governmental funds was a decrease of \$3,717,308. The general fund reported a net decrease in fund balance amounting to \$3,805,527 or 24.7%. The decrease for the general fund is due to current year expenditures and transfers out exceeding current year revenues. During the year the general fund transferred out \$1,000,000 to the self-insurance internal service fund and received less intergovernmental revenue compared to the previous year. Net increases across all other nonmajor governmental funds amounted to \$88,219, or 6.1%. This increase was related to the other financing sources and uses reported from the advance refunding of debt. The excess of expenditures over revenues for all other nonmajor governmental funds is a decrease in fund balance of \$118,656, primarily caused from unavailable revenue

Kent City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2013
 Unaudited

not reported as revenue in the funds. The schedule below shows the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

Table 4
 Fund Balances

	Fund Balance June 30, 2013	Fund Balance June 30, 2012	Increase (Decrease)
General	\$ 11,570,906	\$ 15,376,433	\$ (3,805,527)
Other governmental	1,545,308	1,457,089	88,219
Total	<u>\$ 13,116,214</u>	<u>\$ 16,833,522</u>	<u>\$ (3,717,308)</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 2013, 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 \$40,078,357, which was higher than the original budget estimate of \$39,995,620. This difference of \$82,737, or .2%, is due primarily to an increase in property tax and intergovernmental tax revenue estimates. 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 \$40,176,164, which was slightly higher than the final budget estimate.

The original expenditures and other financing uses estimate of \$43,852,486 was revised slightly over the fiscal year. The final expenditures and other financing uses estimate was \$43,659,925 or \$192,561 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 2013, the School District had \$25,894,705 invested in capital assets. Table 5 shows fiscal year 2013 balances compared to fiscal year 2012:

Kent City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2013
 Unaudited

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 1,648,218	\$ 1,648,218
Construction in progress	-	150,000
Land improvements	228,402	254,174
Buildings and improvements	22,515,835	23,092,513
Furniture, fixtures and equipment	504,330	565,271
Vehicles	997,920	900,134
Total capital assets	<u>\$ 25,894,705</u>	<u>\$ 26,610,310</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 \$3,129,044 have a book value of only \$997,920 or approximately 32% 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, 2013, the School District has general obligation bonds, including unamortized premiums and accreted interest on capital appreciation bonds, outstanding of \$23,137,359, with \$1,630,000 due within one year. Also, the School District has capital lease obligations of \$926,925, with \$97,715 due within one year. The outstanding bond balance reflects a net decrease of \$152,297 which is due to primarily from a net change in bond principal and related premiums resulting from refunding old bonds with new bonds as well as reporting premiums on those 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, 2013, the School District's overall legal debt margin (the ability to issue additional amounts of general obligation debt) was \$22,706,911, with an unvoted debt margin of \$477,632. 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 the School District's revenues and expenditures. The five year financial forecast is discussed and updated regularly. 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. The School District will be faced with financial challenges in the future. These challenges stem from issues at the local, state, and federal levels. The local challenges will continue to exist as the School District must rely heavily on property taxes to fund its operations as a result of the state's current funding system. Moreover, unfunded state mandates and the expansion of public school choice options continue to divert potential unrestricted operating resources away from traditional public school districts. Recent issues at the federal level have also had an impact on the School District. Automatic spending cuts instituted by the 2013 Budget Sequestration have led to a reduction in federal grant funding for the School District. 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
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On May 7, 2013, our electorate approved a new levy of 8.9 mills to be used for current expenses. The new levy is for a continuing period of time and is effective for the 2013 tax year with collections beginning in 2014. An estimated \$4,245,000 will be collected in 2014 from this new levy.

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 Position
June 30, 2013

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 17,030,135
Cash and cash equivalents:	
In segregated accounts	7,500
Inventory held for resale	14,694
Materials and supplies inventory	79,815
Receivables:	
Accounts	229,920
Intergovernmental	770,369
Accrued interest	4,774
Taxes	25,920,345
Prepaid items	4,631
Capital assets:	
Land and construction in progress	1,648,218
Depreciable capital assets, net	24,246,487
Total capital assets	<u>25,894,705</u>
Total assets	<u>69,956,888</u>
<u>Deferred outflows of resources:</u>	
Deferred charge on refunding	<u>38,786</u>
<u>Liabilities:</u>	
Accounts payable	243,355
Accrued wages	3,189,925
Intergovernmental payable	1,316,201
Undistributed monies	4,269
Accrued interest payable	11,119
Claims payable	684,693
Unearned revenue	1,207
Long-term liabilities:	
Due within one year	2,860,263
Due in more than one year	24,589,462
Total liabilities	<u>32,900,494</u>
<u>Deferred inflows of resources:</u>	
Property taxes	<u>22,679,912</u>
<u>Net position:</u>	
Net investment in capital assets	13,565,064
Restricted for:	
Debt service	1,180,977
Permanent fund purpose - scholarships	
Expendable	1,878
Nonexpendable	1,500
Other purposes	714,913
Unrestricted	<u>(1,049,064)</u>
Total net position	<u>\$ 14,415,268</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Revenues and Changes in Net Position
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$ 20,269,464	\$ 2,226,882	\$ 832,648	\$ (17,209,934)
Special	6,486,017	168,526	1,073,507	(5,243,984)
Vocational	1,958,262	875,803	185,125	(897,334)
Adult /continuing	47,016	47,953	-	937
Student intervention services	473,587	-	-	(473,587)
Other	555,704	-	-	(555,704)
Support services:				
Pupils	2,872,413	2,827	182,233	(2,687,353)
Instructional staff	1,626,881	3,357	514,993	(1,108,531)
Board of education	155,761	-	-	(155,761)
Administration	3,393,617	-	76,055	(3,317,562)
Fiscal	1,122,685	-	-	(1,122,685)
Business	285,401	-	-	(285,401)
Operation and maintenance of plant	3,426,166	154,526	1,738	(3,269,902)
Pupil transportation	1,934,159	52,409	54,062	(1,827,688)
Central	83,133	7,142	12,600	(63,391)
Operation of non-instructional services:				
Food service operations	1,265,387	460,981	831,595	27,189
Community services	411,754	66,119	232,494	(113,141)
Shared services	176,359	-	-	(176,359)
Extracurricular activities	1,214,049	295,281	2,400	(916,368)
Interest and fiscal charges	2,146,580	-	-	(2,146,580)
Issuance costs	206,875	-	-	(206,875)
Total governmental activities	<u>\$ 50,111,270</u>	<u>4,361,806</u>	<u>3,999,450</u>	<u>(41,750,014)</u>

General Revenues:

Property taxes levied for:

General purposes	20,327,024
Debt service	2,279,060
Grants and entitlements not restricted to specific programs	16,043,039
Investment earnings	23,664
Miscellaneous	57,962
Total general revenues	<u>38,730,749</u>
Change in net position	(3,019,265)
Net position at beginning of year, as restated (Note 19)	17,434,533
Net position at end of year	<u>\$ 14,415,268</u>

See accompanying notes to the basic financial statements.

Kent City School District

Balance Sheet

Governmental Funds

June 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 14,132,022	\$ 1,534,423	\$ 15,666,445
Cash and cash equivalents:			
In segregated accounts	-	7,500	7,500
Inventory held for resale	-	14,694	14,694
Materials and supplies inventory	75,575	4,240	79,815
Receivables:			
Accounts	221,953	7,967	229,920
Intergovernmental	525,958	244,411	770,369
Accrued interest	4,774	-	4,774
Interfund	9,896	-	9,896
Taxes	23,510,016	2,410,329	25,920,345
Prepaid items	4,631	-	4,631
Total assets	<u>\$ 38,484,825</u>	<u>\$ 4,223,564</u>	<u>\$ 42,708,389</u>
Liabilities, deferred inflows of resources and fund balances:			
<u>Liabilities:</u>			
Accounts payable	\$ 150,944	\$ 92,411	\$ 243,355
Accrued wages	3,093,151	96,774	3,189,925
Interfund payable	-	9,896	9,896
Intergovernmental payable	1,284,638	31,563	1,316,201
Unearned revenue	-	1,207	1,207
Undistributed monies	4,269	-	4,269
Total liabilities	<u>4,533,002</u>	<u>231,851</u>	<u>4,764,853</u>
<u>Deferred inflows of resources:</u>			
Property taxes	20,596,847	2,083,065	22,679,912
Unavailable revenue - delinquent property taxes	1,312,308	141,232	1,453,540
Unavailable revenue - other	471,762	222,108	693,870
Total deferred inflows of resources	<u>22,380,917</u>	<u>2,446,405</u>	<u>24,827,322</u>
<u>Fund balances:</u>			
Nonspendable	80,206	1,500	81,706
Restricted	-	1,640,048	1,640,048
Assigned	4,738,429	-	4,738,429
Unassigned	6,752,271	(96,240)	6,656,031
Total fund balances	<u>11,570,906</u>	<u>1,545,308</u>	<u>13,116,214</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 38,484,825</u>	<u>\$ 4,223,564</u>	<u>\$ 42,708,389</u>

See accompanying notes to the basic financial statements.

Kent City School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2013

Total governmental fund balances		\$ 13,116,214
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		25,894,705
Other long-term assets that are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:		
Property taxes	\$ 1,453,540	
Intergovernmental	305,732	
Tuition and fees	385,976	
Rent	1,738	
Customer services	424	
	<hr/>	2,147,410
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 position.		678,997
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(11,119)
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	\$ (19,625,000)	
Capital appreciation, including accretion	(1,627,351)	
Premium	(1,885,008)	
Unamortized cost of refunding	38,786	
Compensated absences	(3,385,441)	
Capital leases	(926,925)	
Total	<hr/>	<hr/> (27,410,939)
Net position of governmental activities		<hr/> <hr/> \$ 14,415,268

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, 2013

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 20,213,301	\$ 2,262,666	\$ 22,475,967
Intergovernmental	16,372,229	3,299,935	19,672,164
Interest	23,664	301	23,965
Tuition and fees	3,243,202	-	3,243,202
Extracurricular activities	53,220	271,281	324,501
Gifts and donations	61,144	60,483	121,627
Customer services	43,102	464,338	507,440
Rent	173,955	2,827	176,782
Miscellaneous	124,339	46,662	171,001
Total revenues	<u>40,308,156</u>	<u>6,408,493</u>	<u>46,716,649</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	19,270,061	278,563	19,548,624
Special	5,453,542	981,210	6,434,752
Vocational	1,953,222	374	1,953,596
Adult/Continuing	47,016	-	47,016
Student intervention services	477,037	-	477,037
Other	555,704	-	555,704
Support services:			
Pupils	2,695,105	152,403	2,847,508
Instructional staff	1,179,228	474,750	1,653,978
Board of education	155,475	286	155,761
Administration	3,304,721	70,963	3,375,684
Fiscal	1,075,257	44,861	1,120,118
Business	316,527	-	316,527
Operation and maintenance of plant	3,269,050	40,525	3,309,575
Pupil transportation	1,674,710	49,063	1,723,773
Central	77,059	17,391	94,450
Operation of non-instructional services:			
Food service operations	-	1,273,592	1,273,592
Community services	137,734	275,725	413,459
Shared services	178,055	-	178,055
Extracurricular activities	938,663	280,578	1,219,241
Capital outlay	200,512	239,538	440,050
Debt service:			
Principal retirement	112,050	1,565,000	1,677,050
Interest and fiscal charges	42,955	575,452	618,407
Issuance costs	-	206,875	206,875
Total expenditures	<u>43,113,683</u>	<u>6,527,149</u>	<u>49,640,832</u>
Excess of revenues under expenditures	<u>(2,805,527)</u>	<u>(118,656)</u>	<u>(2,924,183)</u>
<u>Other financing sources (uses):</u>			
Refunding bonds issued	-	16,420,000	16,420,000
Premium on refunding bonds issued	-	1,790,431	1,790,431
Payment to refunded bond escrow agent	-	(18,003,556)	(18,003,556)
Transfers out	(1,000,000)	-	(1,000,000)
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>206,875</u>	<u>(793,125)</u>
Net change in fund balances	(3,805,527)	88,219	(3,717,308)
Fund balances at beginning of year	15,376,433	1,457,089	16,833,522
Fund balances at end of year	<u>\$ 11,570,906</u>	<u>\$ 1,545,308</u>	<u>\$ 13,116,214</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, 2013**

Net change in fund balances - total governmental funds \$ (3,717,308)

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	\$ 440,050	
Depreciation expense	(1,155,655)	
Excess of capital outlay over depreciation expense		(715,605)

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	\$ 130,117	
Intergovernmental	65,135	
Tuition and fees	177,942	
Rent	1,738	
Customer services	424	
Net change in deferred inflows of resources during the year		375,356

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,565,000

Refunding bonds issued and related premium provide current financial resources and are reported as a financing source in the governmental funds but are not reported as such in the statement of activities. (18,210,431)

Payment to refunded bond escrow agent is reported as a use of current financial resources in the governmental funds but the payment reduces long-term liabilities in the statement of net position. 16,609,225

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 112,050

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	\$ (388,358)	
Decrease in accrued interest	69,604	
Amortization of:		
Premium	108,510	
Deferred cost of refunding	(78,134)	
Bond accretion	(233,822)	
Total additional expenditures		(522,200)

The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. 1,484,648

Change in net position of governmental activities \$ (3,019,265)

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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Taxes	\$ 20,025,373	\$ 20,320,820	\$ 20,371,026	\$ 50,206
Intergovernmental	16,417,894	16,203,070	16,243,102	40,032
Interest	29,000	18,890	18,890	-
Tuition and fees	3,014,625	3,063,659	3,071,228	7,569
Rent	164,805	163,676	163,676	-
Gifts and donations	7,020	8,020	8,020	-
Customer services	16,579	17,494	17,494	-
Miscellaneous	39,585	36,410	36,410	-
Total revenues	39,714,881	39,832,039	39,929,846	97,807
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	19,050,622	18,676,704	18,676,704	-
Special	5,370,558	5,379,635	5,379,635	-
Vocational	2,055,052	1,915,766	1,915,766	-
Student intervention services	491,284	471,169	471,169	-
Other	473,781	555,704	555,704	-
Support services:				
Pupils	2,677,049	2,713,813	2,713,813	-
Instructional staff	929,572	1,152,702	1,152,702	-
Board of education	155,496	157,288	157,288	-
Administration	3,317,544	3,342,930	3,342,930	-
Fiscal	1,069,435	1,082,603	1,082,603	-
Business	372,936	321,271	321,271	-
Operation and maintenance of plant	3,316,755	3,399,150	3,399,150	-
Pupil transportation	1,825,376	1,860,342	1,860,342	-
Central	57,824	67,245	67,245	-
Operation of non-instructional services:				
Community services	45,045	23,785	23,785	-
Shared services	60,000	174,927	174,927	-
Extracurricular activities	676,643	939,081	939,081	-
Capital outlay	132,014	177,164	177,164	-
Total expenditures	42,076,986	42,411,279	42,411,279	-
Excess of revenues under expenditures	(2,362,105)	(2,579,240)	(2,481,433)	97,807
<u>Other financing sources (uses):</u>				
Proceeds from sale of fixed assets	100	70	70	-
Refund of prior year expenditures	62,553	28,162	28,162	-
Refund of prior year receipts	(9,500)	(250)	(250)	-
Advances in	218,086	218,086	218,086	-
Advances out	(145,500)	(130,396)	(130,396)	-
Transfers out	(1,620,500)	(1,118,000)	(1,118,000)	-
Total other financing sources (uses)	(1,494,761)	(1,002,328)	(1,002,328)	-
Net change in fund balance	(3,856,866)	(3,581,568)	(3,483,761)	97,807
Fund balance at beginning of year	16,553,515	16,553,515	16,553,515	-
Prior year encumbrances appropriated	460,723	460,723	460,723	-
Fund balance at end of year	\$ 13,157,372	\$ 13,432,670	\$ 13,530,477	\$ 97,807

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Position
Internal Service Fund
June 30, 2013

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 1,363,690</u>
<u>Liabilities:</u>	
Claims payable	<u>684,693</u>
<u>Net position:</u>	
Unrestricted	<u>678,997</u>
Total liabilities and net position	<u><u>\$ 1,363,690</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 6,148,526
Other	76,641
Total operating revenues	<u>6,225,167</u>
<u>Operating expenses:</u>	
Purchased services	658,778
Claims	5,081,741
Total operating expenses	<u>5,740,519</u>
Operating income	<u>484,648</u>
Transfer in	<u>1,000,000</u>
Change in net position	1,484,648
Net position at beginning of year	<u>(805,651)</u>
Net position at end of year	<u>\$ 678,997</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, 2013

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from other operating sources	\$ 76,641
Cash received for charges for services	6,148,526
Cash payments to suppliers for goods and services	(658,778)
Cash payments for claims	<u>(5,266,344)</u>
Net cash provided by operating activities	<u>300,045</u>
<u>Cash flows from noncapital financing activities:</u>	
Transfer in	<u>1,000,000</u>
Net cash provided by noncapital financing activities	<u>1,000,000</u>
Net increase in cash and cash equivalents	1,300,045
Cash and cash equivalents at beginning of year	63,645
Cash and cash equivalents at end of year	<u>\$ 1,363,690</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>	
Operating income	<u>\$ 484,648</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in liabilities:	
Increase (decrease) in liabilities:	
Claims payable	<u>(184,603)</u>
Total adjustments	<u>(184,603)</u>
Net cash provided by operating activities	<u>\$ 300,045</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 128,135
Total assets	<u>\$ 128,135</u>
<u>Liabilities:</u>	
Accounts payable	\$ 3,188
Due to students	124,947
Total liabilities	<u>\$ 128,135</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, 2013

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 167 non-certificated employees and 371 certificated teaching and support personnel who provide services to 3,297 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, 2013.

The School District is associated with the Metropolitan Regional Service Council (MRSC) also known as 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 which is defined as a related organization as more fully explained in Note 16.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 position 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 position 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 position 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, 2013

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 position, 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 position and changes in net position. 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, liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 position. The statement of revenues, expenses and changes in fund net position 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 inflows of resources, 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, 2013

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. This amount is related to a debt refunding from a previous year.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance year 2014 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to 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, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Interfund Balances

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

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 position but are not reported on the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 once incurred, are paid in a timely manner and in full from current financial resources and 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.

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 which includes giving the Treasurer the authority to constrain monies for intended purposes.

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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

M. Net Position

Net position represents the difference between assets and liabilities. Net position of net investment in capital assets 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 position is 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 position is 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. Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the bonds-outstanding method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

P. Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Q. 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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

R. Estimates

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

NOTE 2 – 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	General	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>			
Materials and supplies inventory	\$ 75,575	\$ -	\$ 75,575
Prepays	4,631	-	4,631
Scholarships	-	1,500	1,500
Total nonspendable	<u>80,206</u>	<u>1,500</u>	<u>81,706</u>
<u>Restricted for</u>			
Food service	-	297,614	297,614
Athletics and music	-	95,449	95,449
Auxiliary services	-	3,975	3,975
Instructional programs	-	14,515	14,515
Special education	-	379	379
Endowments	-	1,878	1,878
Special trusts	-	69,803	69,803
Local grants	-	105,571	105,571
Debt service payments	-	1,050,864	1,050,864
Total restricted	<u>-</u>	<u>1,640,048</u>	<u>1,640,048</u>
<u>Assigned</u>			
Uniform school supplies	1,297	-	1,297
Public school support	73,200	-	73,200
Encumbrances	217,575	-	217,575
Next fiscal year budget	4,446,357	-	4,446,357
Total assigned	<u>4,738,429</u>	<u>-</u>	<u>4,738,429</u>
Unassigned (deficit)	<u>6,752,271</u>	<u>(96,240)</u>	<u>6,656,031</u>
Total fund balances	<u>\$ 11,570,906</u>	<u>\$ 1,545,308</u>	<u>\$ 13,116,214</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

Net Change in Fund Balance

	<u>General</u>
GAAP basis	\$ (3,805,527)
Net adjustment for revenue accruals	41,818
Advances in	218,086
Net adjustment for expenditure accruals	582,796
Advances out	(130,396)
Encumbrances (Budget basis) outstanding at year-end	(433,513)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(391,896)
Transfers from general fund	(118,000)
Expenditures	552,871
Budget basis	<u>\$ (3,483,761)</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 five years 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, 2013

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 \$10,472,408. The School District's bank balance of \$10,710,435 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	\$ 4,560,000	Daily	AAA ⁽¹⁾
STAR Ohio	2,132,112	57.5 ⁽³⁾	AAAm ⁽²⁾
	<u>\$ 6,692,112</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.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013 amounted to \$23,664, which includes \$2,398 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$4,560,000 investment in repurchase agreements is to be secured by the specific securities upon which the repurchase agreements are based. As of June 30, 2013, 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 100% of single issuer investments and 68% of all investments held by the School District at June 30, 2013.

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 for public utilities) located in the School District. Real property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, 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 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 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, 2013

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, 2013, are available to finance fiscal year 2013 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, 2013 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 inflows of resources – property taxes.

The amount available as an advance at June 30, 2013, was \$1,600,861 in the general fund, and \$186,032 in the bond retirement debt service fund. 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.

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 of real property used for residential and agricultural purposes were reduced following the Portage County Auditor's recent revaluation. All property is required to be revalued every six years; however, updates are performed periodically.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The assessed values upon which the fiscal year 2013 taxes were collected are:

<u>Property Category</u>	<u>2012 Assessed Value</u>	<u>2011 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 332,452,440	\$ 359,644,470
Commercial, industrial and minerals	134,534,600	121,656,280
Public utilities	236,490	235,980
<u>Tangible Personal Property</u>		
Public utilities	10,408,710	9,511,220
Total	<u>\$ 477,632,240</u>	<u>\$ 491,047,950</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 fund and nonmajor governmental funds accounts receivable at year-end consisted of fees, tuition and other miscellaneous reimbursements of \$221,953 and \$7,967 respectively.

Also, the general fund and nonmajor governmental funds recorded intergovernmental receivables as shown below:

<u>Intergovernmental receivables</u>	<u>General</u>	<u>Other Governmental Funds</u>
Medicaid reimbursement	\$ 22,406	\$ -
Bureau of Workers' Compensation dividend	141,651	12,306
Ohio School Employees Retirement System refund	82,524	-
Excess costs reimbursements	279,377	-
Lunch and breakfast program reimbursement	-	9,997
State and Federal grant reimbursements	-	222,108
Total intergovernmental receivable	<u>\$ 525,958</u>	<u>\$ 244,411</u>

Kent City School DistrictNotes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 1,648,218	\$ -	\$ -	\$ 1,648,218
Construction in progress	<u>150,000</u>	<u>27,700</u>	<u>(177,700)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,798,218</u>	<u>27,700</u>	<u>(177,700)</u>	<u>1,648,218</u>
Capital assets, being depreciated:				
Land improvements	517,170	-	-	517,170
Buildings and improvements	39,430,353	230,027	-	39,660,380
Furniture, fixtures and equipment	2,587,767	42,296	-	2,630,063
Vehicles	<u>2,961,990</u>	<u>317,727</u>	<u>(150,673)</u>	<u>3,129,044</u>
Total capital assets, being depreciated	<u>45,497,280</u>	<u>590,050</u>	<u>(150,673)</u>	<u>45,936,657</u>
Less: Accumulated depreciation				
Land improvements	(262,996)	(25,772)	-	(288,768)
Buildings and improvements	(16,337,840)	(806,705)	-	(17,144,545)
Furniture, fixtures and equipment	(2,022,496)	(103,237)	-	(2,125,733)
Vehicles	<u>(2,061,856)</u>	<u>(219,941)</u>	<u>150,673</u>	<u>(2,131,124)</u>
Total accumulated depreciation	<u>(20,685,188)</u>	<u>(1,155,655)</u>	<u>150,673</u>	<u>(21,690,170)</u>
Total capital assets being depreciated, net	<u>24,812,092</u>	<u>(565,605)</u>	<u>-</u>	<u>24,246,487</u>
Governmental activities capital assets, net	<u>\$ 26,610,310</u>	<u>\$ (537,905)</u>	<u>\$ (177,700)</u>	<u>\$ 25,894,705</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 692,508
Special	843
Vocational	17,963
Support services:	
Instructional staff	3,631
Administration	9,495
Fiscal	1,340
Business	8,480
Operation and maintenance of plant	177,336
Pupil transportation	202,289
Central	2,756
Food service operations	6,280
Extracurricular activities	32,734
Total depreciation expense	<u>\$ 1,155,655</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2013 consisted of the following:

Due to general fund from:	
Nonmajor governmental funds	\$ 9,896

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, 2013, all interfund loans outstanding are anticipated to be repaid in fiscal year 2014.

B. Transfers at June 30, 2013 consisted of the following:

Transfers to internal service fund from:	
General fund	\$ 1,000,000

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, 2013

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 \$684,693 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 2012 and 2013 were:

	Year ended 6/30/2012	Year ended 6/30/2013
Unpaid claims, beginning of fiscal year	\$ 479,493	\$ 869,296
Incurred claims (including IBNRs)	5,124,185	5,081,741
Claim payments	<u>(4,734,382)</u>	<u>(5,266,344)</u>
Unpaid claims, end of fiscal year	<u>\$ 869,296</u>	<u>\$ 684,693</u>

C. Worker's Compensation

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

NOTE 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 financial statements and required supplementary information. That report may be obtained on SERS' website at www.ohsers.org under employers/audit resources.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013, 13.10 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, 2013, 2012 and 2011 were \$700,107, \$701,295 and \$780,406 respectively; 67 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System

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

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

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

Funding Policy - For the fiscal year ended June 30, 2013, 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 2012, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,137,546, \$3,079,938, and \$3,154,038 respectively; 83 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$132,267 made by the School District and \$94,476 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, 2013, 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, Medicare Advantage 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 fiscal year 2013, 0.16 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 fiscal year 2013, this amount was \$20,525.

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

The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$109,402, \$139,701, and \$151,050 respectively; 96.3 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$39,548, \$45,130, and \$50,221 respectively; 67 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013, 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, 2013, 2012, and 2011 were \$241,350, \$236,918, and \$242,618 respectively; 83 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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, 2012	\$ -
Current year set-aside requirement	570,375
Qualifying disbursements	<u>(1,283,205)</u>
Total	<u>\$ (712,830)</u>
Balance carried forward to future years	<u>\$ -</u>

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

Kent City School DistrictNotes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013**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, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
2013 Library refunding bonds	\$ -	\$ 8,600,000	\$ -	\$ 8,600,000	\$ -
Premium	-	908,721	-	908,721	-
2013 School improvement refunding bonds	-	7,820,000	-	7,820,000	-
Premium	-	881,710	-	881,710	-
2004 Library bonds					
Serial and term bonds	10,070,000	-	(9,105,000)	965,000	475,000
Capital appreciation bonds	239,996	-	-	239,996	-
Accretion on bonds	167,448	26,992	-	194,440	-
Premium	91,165	-	(81,385)	9,780	-
2004 School improvement refunding bonds					
Serial and term bonds	9,705,000	-	(8,750,000)	955,000	955,000
Capital appreciation bonds	49,999	-	-	49,999	-
Accretion on bonds	428,040	168,008	-	596,048	-
Premium	495,937	-	(451,280)	44,657	-
2007 Refunding bonds					
Serial and term bonds	1,485,000	-	(200,000)	1,285,000	-
Capital appreciation bonds	364,996	-	-	364,996	128,660
Accretion on bonds	143,050	38,822	-	181,872	71,340
Premium	49,025	-	(8,885)	40,140	-
Total Bonds	23,289,656	18,444,253	(18,596,550)	23,137,359	1,630,000
<u>Other Obligations</u>					
Compensated absences	2,997,083	1,235,602	(847,244)	3,385,441	1,132,548
Capital leases payable	1,038,975	-	(112,050)	926,925	97,715
Total other liabilities	4,036,058	1,235,602	(959,294)	4,312,366	1,230,263
Governmental activities long-term liabilities	\$ 27,325,714	\$ 19,679,855	\$ (19,555,844)	\$ 27,449,725	\$ 2,860,263

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>General Obligation Bonds</u>			
2004 Library	\$ 13,500,000	3.50%	12/1/2015
2004 School improvement refunding	13,629,999	3.50%	12/1/2014
2007 Refunding	2,149,996	3.93 - 4.25%	12/1/2021
2013 Library refunding	8,600,000	2% - 4.5%	12/1/2028
2013 School Improvement refunding	7,820,000	0.65% - 5%	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 2013, the School District issued \$8,600,000 and \$7,820,000 in general obligation bonds to be used for the refunding of a portion of the 2004 Library Bonds and a portion of the 2004 School Improvement Refunding Bonds respectively.

The 2013 Library Refunding Bonds proceeds consisted of bond principal and \$908,721 of premium. The net proceeds of \$9,397,093 (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 2004 Library 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 remaining old debt was called and will be redeemed on December 1, 2014. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization. The School District advance refunded the Library Bonds to reduce their total debt service payments over the next sixteen years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,046,802.

The 2013 School Improvement Refunding Bonds proceeds consisted of bond principal and \$881,710 of premium. The net proceeds of \$8,606,463 (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 2004 School Improvement Refunding 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 remaining old debt was called and will be redeemed on December 1, 2014. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization. The School District advance refunded the School Improvement Refunding Bonds to reduce their total debt service payments over the next nine years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$687,248.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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 are \$610,000. The bond proceeds consisted of bond principal and \$104,530 of premium. 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 subsequently redeemed. 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 \$26,992, \$168,008, and \$38,822 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 32.5% for the capital appreciation bonds. The bonds were used to refund \$13.6 million of outstanding school improvement bonds. The old debt has since been called and subsequently redeemed. The difference between the reacquisition price and the net carrying amount of the old debt was significant and will be amortized over the life of the new bonds using the bonds outstanding method of amortization. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

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

Principal and interest requirements to amortize all bonds outstanding at June 30, 2013 are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 1,558,660	\$ 718,802	\$ 2,277,462
2015	772,515	1,653,625	2,426,140
2016	1,468,816	954,363	2,423,179
2017	1,835,000	574,501	2,409,501
2018	1,865,000	537,750	2,402,750
2019-2023	8,450,000	1,495,225	9,945,225
2024-2028	3,720,000	377,250	4,097,250
2029	<u>610,000</u>	<u>9,150</u>	<u>619,150</u>
Total	<u>\$ 20,279,991</u>	<u>\$ 6,320,666</u>	<u>\$ 26,600,657</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 \$112,050.

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

Fiscal <u>Year</u>	Lease <u>Payments</u>
2014	\$ 136,025
2015	128,201
2016	128,201
2017	128,201
2018	128,201
2019-2022	<u>467,434</u>
Total minimum lease payments	1,116,263
Less: amount representing interest	<u>(189,338)</u>
Total	<u>\$ 926,925</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Metropolitan Regional Service Council (MRSC) is the computer service organization or Information Technology Center (ITC) used by the School District. MRSC is also known as Northeast Ohio Network for Educational Technology (NEOnet), which is the name used exclusively prior to their reorganization from a consortium to a council of governments. The superintendent from each member entity is appointed to the legislative body of MRSC known as the assembly. The assembly elects a board of directors consisting of nine members. These members comprise the managerial body of the council and meet at least five times yearly. The operations of MRSC are under the control of the board of directors and the executive director. The purpose of the MRSC is to develop and employ a computer system efficiently and effectively for the needs of the member school districts. All members are required to pay fees, charges and assessments as charged. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2013, the School District contributed \$148,402 to MRSC. 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 700 Graham Road, Cuyahoga Falls, Ohio 44221.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 vocational or special education classes offered by any of the six school districts. If a student is accepted 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 2013, the School District contributed a nominal amount to the Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

The Ohio Schools Council Association (Council) is a jointly governed organization among 198 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 2013 the School District paid \$204,554 to the Council in the form of natural gas purchases. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools' Council, at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

NOTE 16 - RELATED ORGANIZATION

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.

NOTE 17 - CONTINGENCIES

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

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, 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, 2013.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 18 – ACCOUNTABILITY

As of June 30, 2013, the permanent improvement fund and 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:

<u>Fund</u>	<u>Amount</u>
Permanent improvement	\$ 6,566
Alternative schools	337
IDEA Part B	46,761
Title I	9,358
Improving teacher quality	33,218

NOTE 19 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For fiscal year 2013, the School District has implemented Governmental Accounting Standards Board Statement (GASBS) No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASBS No. 63 established standards for the reporting of net position which was previously referred to as net assets. The School District’s implementation had no effect on the amount of beginning net position.

For fiscal year 2013, the School District has also implemented Governmental Accounting Standards Board Statement (GASBS) No. 65, “Items Previously Reported as Assets and Liabilities”.

GASBS No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. In prior periods the School District had reported assets related to the unamortized debt issuance costs in the governmental activity entity wide financial statements. GASBS No. 65 has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The School District’s implementation of GASBS No. 65 had the following effect on the amount of beginning net position.

	<u>Governmental Activities</u>
Net position, June 30, 2012	\$ 17,592,861
Prior period adjustments:	
Unamortized debt issuance costs	<u>(158,328)</u>
Restated net position, July 1, 2012	<u>\$ 17,434,533</u>

December 3, 2013

To Board of Education and Management
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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 3, 2013, in which we noted the School District restated their June 30, 2012 net position to account for the implementation of GASB Statement No. 63 and GASB Statement No. 65.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

December 3, 2013

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

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited Kent City School District's, Portage County, Ohio (the "School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass Through Grantor Program Title	Program Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through the Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program (A)	2013	10.553	\$ 231,097	\$ 231,097
National School Lunch Program (A)	2013	10.555	623,930	623,930
Food Commodity Distribution (B)	2013	10.555	<u>45,238</u>	<u>45,238</u>
Total Child Nutrition Cluster			900,265	900,265
Fresh Fruit and Vegetable Program	2013	10.582	11,338	11,338
Total U.S. Department of Agriculture			<u>911,603</u>	<u>911,603</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	2012	84.027	88,404	82,375
	2013	84.027	<u>648,588</u>	<u>634,191</u>
Total Special Education - Grants to States (IDEA Part B)			736,992	716,566
Special Education - Preschool Grants	2012	84.173	2,900	2,961
	2013	84.173	<u>27,268</u>	<u>26,892</u>
Total Special Education - Preschool Grants			30,168	29,853
Total Special Education Cluster			<u>767,160</u>	<u>746,419</u>
Grants to Local Educational Agencies (Title I) Cluster:				
Grants to Local Educational Agencies (Title I)	2012	84.010	105,185	106,821
	2013	84.010	767,065	731,415
School Improvement Sub A (Title I)	2013	84.010	<u>55,000</u>	<u>53,693</u>
Total Grants to Local Educational Agencies (Title I) Cluster			927,250	891,929
Technology Literacy Quality State Grants (Title II-D)	2012	84.318	(4)	7,914
English Language Acquisition Grants (Title III)	2012	84.365	0	1,530
	2013	84.365	<u>11,576</u>	<u>3,758</u>
Total English Language Acquisition Grants (Title III)			11,576	5,288
Improving Teacher Quality State Grants (Title II-A)	2012	84.367	29,207	26,781
	2013	84.367	<u>161,018</u>	<u>168,606</u>
Total Improving Teacher Quality State Grants (Title II-A)			190,225	195,387
ARRA - Race to the Top	2012	84.395	32,404	15,029
	2013	84.395	<u>131,735</u>	<u>128,753</u>
Total ARRA - Race to the Top			164,139	143,782
Education Jobs	2012	84.410	114,751	87,066
<i>Passed Through Six District Educational Compact:</i>				
Vocational Education - Basic Grants to State	2013	84.048	76,638	76,638
Total U.S. Department of Education			<u>2,251,735</u>	<u>2,154,423</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
<i>Passed Through the Ohio Environmental Protection Agency:</i>				
Clean Diesel Grant Program	2013	66.040	10,570	0
Total U.S. Environmental Protection Agency			<u>10,570</u>	<u>0</u>
Totals			<u>\$ 3,173,908</u>	<u>\$ 3,066,026</u>

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

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

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2013*

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 2013, the ODE authorized the following transfer:

CFDA Number	Program Title	Program Year	Transfers Out	Transfers In
84.318	Technology Literacy Quality State Grants (Title II-D)	2012	\$ 4	
84.318	Technology Literacy Quality State Grants (Title II-D)	2013		\$ 4

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(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	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster: Special Education Grants to States Special Education-Preschool Grants ARRA – Race to the Top	CFDA #84.027 CFDA #84.173 CFDA #84.395
(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.

December 3, 2013

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

Independent Accountant's Report on Applying Agreed-Upon Procedure

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on July 10th, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

Rea & Associates, Inc.

New Philadelphia, Ohio



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 13, 2014**