



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2015
Fiscal Year Audited Under GAGAS: 2015



Dave Yost • Auditor of State

Board of Education
Kenton City School District
222 W Carol St.
Kenton, OH 43326

We have reviewed the *Independent Auditor's Report* of the Kenton City School District, Hardin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Kenton 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

February 1, 2016

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

| <u>TITLE</u> | <u>PAGE</u> |
|--|-------------|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis | 4 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position – Cash Basis | 14 |
| Statement of Activities – Cash Basis | 15 |
| Fund Financial Statements: | |
| Statement of Assets and Fund Cash Balances - Cash Basis – Governmental Funds | 16 |
| Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Cash Basis – Governmental Funds | 17 |
| Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund | 18 |
| Statement of Fiduciary Net Cash Position - Fiduciary Funds | 19 |
| Statement of Change in Fiduciary Net Cash Position – Private Purpose Trust Funds | 20 |
| Notes to the Basic Financial Statements | 22 |
| Supplementary Information: | |
| Schedule of the District’s Proportionate Share of the Net Pension Liability: | |
| School Employees Retirement System (SERS) of Ohio | 49 |
| School Teachers Retirement System (STRS) of Ohio | 50 |
| Schedule of District Contributions: | |
| School Employees Retirement System (SERS) of Ohio | 51 |
| School Teachers Retirement System (STRS) of Ohio | 52 |
| Notes to Required Supplementary Information | 53 |
| Schedule of Federal Awards Receipts and Expenditures..... | 54 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures..... | 55 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i> | 56 |
| Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133 | 58 |
| Schedule of Findings OMB Circular A-133 Section .505..... | 60 |
| Schedule of Prior Audit Findings | 62 |

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

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 Kenton City School District, Hardin County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kenton City School District, Hardin County, Ohio, as of June 30, 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis, or to the schedules of net pension liabilities and pension contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 the District's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
November 24, 2015

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The management's discussion and analysis of the Kenton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2015, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- The total net cash position of the District decreased \$4,176,223 or 28.56% from fiscal year 2014.
- General cash receipts accounted for \$19,052,525 or 80.29% of total governmental activities cash receipts. Program specific cash receipts accounted for \$4,676,469 or 19.71% of total governmental activities cash receipts.
- The District had \$27,905,217 in cash disbursements related to governmental activities; \$4,176,223 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) of \$19,052,525 were not adequate to provide for these programs.
- The District's major funds are the general fund, permanent improvement fund and classroom facilities fund. The general fund had cash receipts and other financing sources of \$19,902,910 in 2015. The cash disbursements and other financing uses of the general fund, totaled \$20,586,412 in 2015. The general fund's fund cash balance decreased \$683,502 from a balance of \$5,495,105 to \$4,811,603.
- The permanent improvement fund had other financing sources of \$2,060,000 in 2015. The permanent improvement fund cash balance increased \$2,060,000 from a balance of \$296,821 to \$2,356,821.
- The classroom facilities fund had receipts of \$486,540 and disbursements of \$4,234,194 in 2015. The classroom facilities fund cash balance decreased \$3,747,654 from a balance of \$5,495,595 to \$1,747,941.

Using this Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, there are three major governmental funds.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2015?" These statements include *only net cash assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

These two statements report the District's net position and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and the statement of activities - cash basis, the governmental activities include District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The statement of net position - cash basis and the statement of activities - cash basis can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, permanent improvement fund and classroom facilities fund. The analysis of the District's major governmental funds begins on page 10.

Governmental Funds

Most of the 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 the cash basis of accounting, which is a basis of accounting other than GAAP. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 16-17 of this report.

The District's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the general fund is presented to demonstrate the District's compliance with annually adopted budgets. The budgetary statement can be found on page 18 of this report.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The School District's only fiduciary funds are a private-purpose trust fund and an agency fund. Only the cash held at year end for these funds is reported on page 19-20.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-47 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 50 through 54 of this report.

Government-Wide Financial Analysis

Recall that the statement of net position - cash basis provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2015 and 2014.

| | Net Position | |
|--|---|---|
| | Governmental Activities <u>2015</u> | Governmental Activities <u>2014</u> |
| <u>Assets</u> | | |
| Equity in pooled cash and cash equivalents | \$ 10,013,055 | \$ 14,190,358 |
| Cash and cash equivalents with escrow agents | <u>432,479</u> | <u>431,399</u> |
| Total assets | <u>10,445,534</u> | <u>14,621,757</u> |
| <u>Net Position</u> | | |
| Restricted | 3,395,560 | 8,831,382 |
| Unrestricted | <u>7,049,974</u> | <u>5,790,375</u> |
| Total net position | <u>\$ 10,445,534</u> | <u>\$ 14,621,757</u> |

The total net position of the District decreased \$4,176,223, which represents a 28.56% decrease over fiscal year 2014.

The balance of government-wide unrestricted net position of \$7,049,974 may be used to meet the government's ongoing obligations to citizens and creditors.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The table below shows the changes in net cash position for fiscal year 2015 and 2014. Certain 2014 amounts have been reclassified to conform to 2015's presentation.

| | Change in Net Position | |
|--|-------------------------------|----------------------------|
| | Governmental Activities | Governmental Activities |
| | <u>2015</u> | <u>2014</u> |
| Cash Receipts: | | |
| Program cash receipts: | | |
| Charges for services | \$ 1,685,970 | \$ 1,722,890 |
| Operating grants, contributions and interest | <u>2,990,499</u> | <u>3,444,701</u> |
| Total program cash receipts | <u>4,676,469</u> | <u>5,167,591</u> |
| General cash receipts: | | |
| Property taxes | 4,942,487 | 4,650,944 |
| Income taxes | 2,975,941 | 2,926,740 |
| Unrestricted grants | 10,389,002 | 9,238,352 |
| Restricted grants | 483,892 | 9,806,312 |
| Investment earnings | 28,309 | 37,929 |
| Sale of capital assets | 77,170 | 31,415 |
| Miscellaneous | <u>155,724</u> | <u>933,867</u> |
| Total general cash receipts | <u>19,052,525</u> | <u>27,625,559</u> |
| Total cash receipts | <u>\$ 23,728,994</u> | <u>\$ 32,793,150</u> |

- Continued

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Change in Net Position (Continued)

| | Governmental Activities <u>2015</u> | Governmental Activities <u>2014</u> |
|--|---|---|
| Cash Disbursements: | | |
| Instruction: | | |
| Regular | \$ 9,398,618 | \$ 9,243,711 |
| Special | 3,417,363 | 3,269,870 |
| Vocational | 207,715 | 188,562 |
| Support services: | | |
| Pupil | 569,637 | 493,730 |
| Instructional staff | 478,783 | 524,916 |
| Board of education | 82,847 | 36,840 |
| Administration | 1,755,529 | 1,631,282 |
| Fiscal | 439,790 | 482,685 |
| Operations and maintenance | 1,915,996 | 1,593,456 |
| Pupil transportation | 1,185,617 | 865,465 |
| Central | 5,225 | 5,225 |
| Operation of non instructional services: | | |
| Other non instructional services | 44,698 | 1,497 |
| Food service operations | 921,281 | 950,898 |
| Extracurricular activities | 654,041 | 728,869 |
| Facilities acquisition and construction | 6,057,846 | 19,276,693 |
| Debt service: | | |
| Principal retirement | 340,000 | 345,000 |
| Interest and fiscal charges | <u>430,231</u> | <u>437,081</u> |
| Total cash disbursements | <u>\$ 27,905,217</u> | <u>\$ 40,075,780</u> |

Governmental Activities

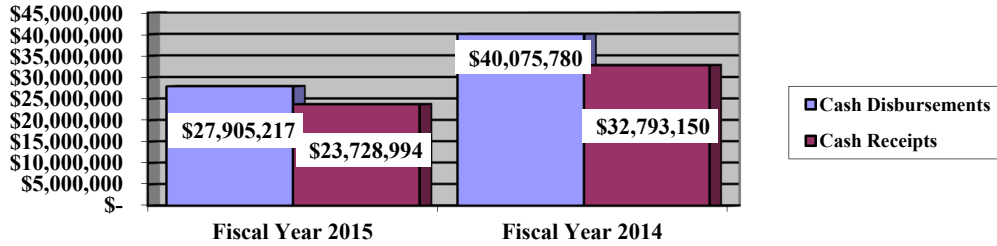
Governmental assets decreased by \$4,176,223 in 2015 from 2014. Total governmental disbursements of \$27,905,217 were offset by program receipts of \$4,676,469 and general receipts of \$19,052,525. Program receipts supported 16.76% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These receipt sources represent 77.15% of total governmental receipts. Real estate property is reappraised every six years.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



Governmental Activities

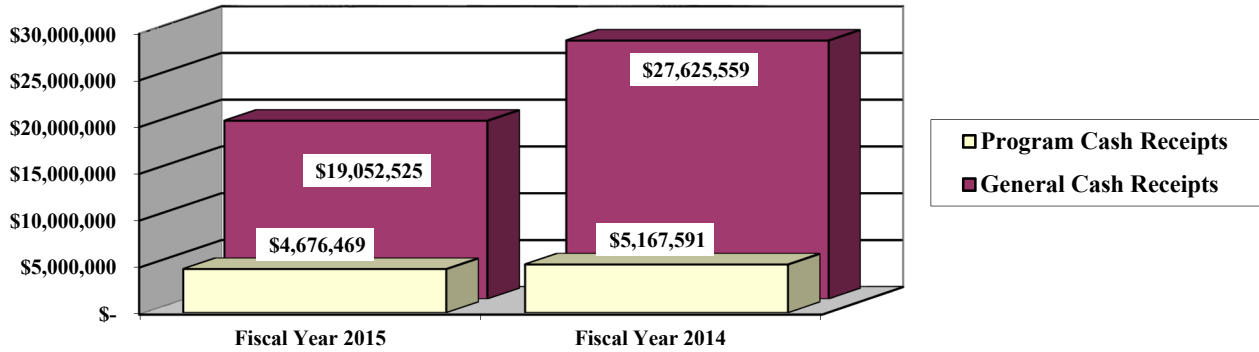
| | Total Cost of Services 2015 | Net Cost of Services 2015 | Total Cost of Services 2014 | Net Cost of Services 2014 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Cash disbursements: | | | | |
| Instruction: | | | | |
| Regular | \$ 9,398,618 | \$ 8,286,503 | \$ 9,243,711 | \$ 7,695,448 |
| Special | 3,417,363 | 1,279,359 | 3,269,870 | 1,006,352 |
| Vocational | 207,715 | 182,051 | 188,562 | 160,115 |
| Support services: | | | | |
| Pupil | 569,637 | 568,556 | 493,730 | 488,440 |
| Instructional staff | 478,783 | 391,351 | 524,916 | 524,916 |
| Board of education | 82,847 | 82,847 | 36,840 | 36,840 |
| Administration | 1,755,529 | 1,755,529 | 1,631,282 | 1,631,282 |
| Fiscal | 439,790 | 439,212 | 482,685 | 423,027 |
| Operations and maintenance | 1,915,996 | 1,859,083 | 1,593,456 | 1,593,456 |
| Pupil transportation | 1,185,617 | 1,148,535 | 865,465 | 804,586 |
| Central | 5,225 | 5,225 | 5,225 | (5,575) |
| Operation of non instructional services: | | | | |
| Other non instructional services | 44,698 | 42,181 | 1,497 | 1,497 |
| Food service operations | 921,281 | 6,283 | 950,898 | 17,157 |
| Extracurricular activities | 654,041 | 353,956 | 728,869 | 471,874 |
| Facilities acquisition and construction | 6,057,846 | 6,057,846 | 19,276,693 | 19,276,693 |
| Debt service: | | | | |
| Principal retirement | 340,000 | 340,000 | 345,000 | 345,000 |
| Interest and fiscal charges | 430,231 | 430,231 | 437,081 | 437,081 |
| Total | \$ 27,905,217 | \$ 23,228,748 | \$ 40,075,780 | \$ 34,908,189 |

The dependence upon general cash receipts for governmental activities is apparent; with 83.24% of cash disbursements supported through taxes and other general cash receipts during 2015.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The District's governmental funds are accounted for using the cash basis of accounting.

The District's governmental funds reported a combined fund cash balance of \$10,445,534, which is \$4,176,223 lower than last year's total balance of \$14,621,757. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2015 and June 30, 2014, for all major and nonmajor governmental funds.

| | <u>Fund Balance</u> <u>June 30, 2015</u> | <u>Fund Balance</u> <u>June 30, 2014</u> | <u>Change</u> |
|-----------------------------------|---|---|-----------------------|
| Major funds: | | | |
| General | \$ 4,811,603 | \$ 5,495,105 | \$ (683,502) |
| Permanent improvement | 2,356,821 | 296,821 | 2,060,000 |
| Classroom facilities | 1,747,941 | 5,495,595 | (3,747,654) |
| Other nonmajor governmental funds | <u>1,529,169</u> | <u>3,334,236</u> | <u>(1,805,067)</u> |
| Total | <u>\$ 10,445,534</u> | <u>\$ 14,621,757</u> | <u>\$ (4,176,223)</u> |

General Fund

The general fund had cash receipts and other financing sources of \$19,902,910 in 2015. The cash disbursements of the general fund, totaled \$20,586,412 in 2015. The general fund's cash balance decreased \$683,502 from a balance of \$5,495,105 to \$4,811,603 primarily due to transfers out to the permanent improvement fund of \$2,000,000.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The table that follows assists in illustrating the cash receipts of the general fund.

| | <u>2015 Amount</u> | <u>2014 Amount</u> | <u>Percentage Change</u> |
|------------------------------|------------------------|------------------------|------------------------------|
| <u>Cash Receipts:</u> | | | |
| Taxes | \$ 7,126,556 | \$ 6,775,818 | 5.18 % |
| Tuition | 1,041,505 | 1,150,244 | (9.45) % |
| Earnings on investments | 24,852 | 10,446 | 137.91 % |
| Other revenues | 330,940 | 374,825 | (11.71) % |
| Intergovernmental | <u>11,361,887</u> | <u>10,404,828</u> | 9.20 % |
| Total | <u>\$ 19,885,740</u> | <u>\$ 18,716,161</u> | 6.25 % |

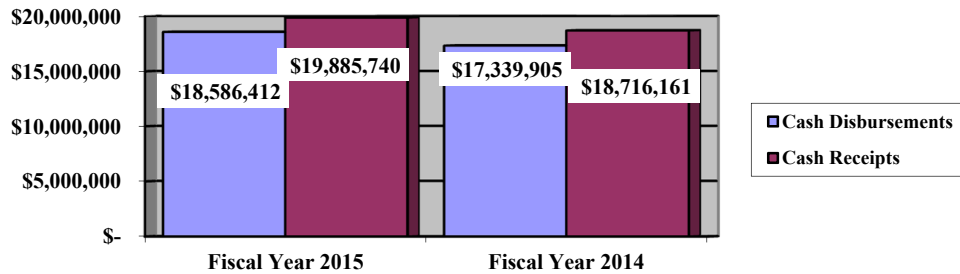
The District's general fund cash receipts increased \$1,169,579 or 6.25%. Taxes increased \$350,738 or 5.18% due to strong property tax collections related to increased valuations within the District. Intergovernmental receipts increased \$957,059 or 9.20% due to increases in State foundation funding and State reimbursements for homestead and rollback.

The table that follows assists in illustrating the disbursements of the general fund.

| | <u>2015 Amount</u> | <u>2014 Amount</u> | <u>Percentage Change</u> |
|----------------------------------|------------------------|------------------------|------------------------------|
| <u>Cash Disbursements</u> | | | |
| Instruction | \$ 11,872,256 | \$ 11,560,820 | 2.69 % |
| Support services | 6,231,650 | 5,362,246 | 16.21 % |
| Operation of non instruction | 41,495 | - | 100.00 % |
| Extracurricular | <u>441,011</u> | <u>416,839</u> | 5.80 % |
| Total | <u>\$ 18,586,412</u> | <u>\$ 17,339,905</u> | 7.19 % |

The District's general fund cash disbursements increased \$1,246,507 or 7.19%. The largest increases were in the areas of instruction and support services which increased \$311,436 and 869,404, respectively. These increases were primarily due in wage and benefit increases given to employees.

General Fund - Total Cash Receipts vs. Total Cash Disbursements



**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Permanent Improvement Fund

The permanent improvement fund had \$2,060,000 in other financing sources during 2015. The fund balance of the permanent improvement fund increased \$2,060,000 from \$296,821 to \$2,356,821. This large increase was due to a \$2,000,000 transfer received from the general fund during the fiscal year.

Classroom Facilities Fund

The classroom facilities fund had \$486,540 in receipts and \$4,234,194 in disbursements during 2015. The fund balance of the classroom facilities fund decreased \$3,747,654 from \$5,495,595 to \$1,747,941. This decrease in fund balance was primarily due to costs associated with the District's building project with the Ohio Facilities Construction Commission.

Budgeting Highlights - General Fund

The 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.

For the general fund, final budget basis receipts and other financing sources of \$19,682,961 were increased from the original budget estimates of \$18,569,011. Actual cash receipts of \$19,825,213 were more than final budget estimates by \$142,252. The final budget basis disbursements were \$22,086,702 were increased \$2,772,689 from original budget basis disbursements of \$19,314,013 due to a \$2,000,000 transfer out. The actual budgetary basis disbursements of \$20,868,331 were \$1,218,371 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

The District had the following long-term obligations outstanding at June 30, 2015 and 2014:

| | Governmental Activities <u>2015</u> | Governmental Activities <u>2014</u> |
|--|---|---|
| FY 2012 school facilities construction and improvement bonds | | |
| Serial, term and capital appreciation bonds | \$ 12,446,385 | \$ 12,771,532 |
| Premiums | 299,955 | 308,173 |
| Discounts | <u>(133,126)</u> | <u>(136,773)</u> |
| Total long-term obligations | <u>\$ 12,613,214</u> | <u>\$ 12,942,932</u> |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Current Issues

The Kenton City School District is in a state of uncertain economic times as are all government bodies and school districts across the State. The District has seen a stabilization in open enrollment, the number of students leaving the District is less than or equal to the number of students choosing to be educated at Kenton City Schools. The District has also offered additional educational options through the Kenton Online Learning Academy and satellite programs through the Ohio Hi-Point Career Center. This will all benefit our community and the financial stability of our School District.

The District has successfully opened a new elementary school on land north of the current high school. The District participated in the Ohio Facilities Construction Commission program in which the State contributed 65 percent of the cost of eligible expenditures of the new facility and the local share being 35 percent of the cost plus any additional needs requested. The consolidation of all students in grades prekindergarten through 6th grade in one central location has allowed the district to be more efficient in operations (cafeteria, transportation, special education, Title I, etc.). The District's two largest elementary buildings that were vacant were demolished in early 2015. The District is in the process of selling the land of the largest elementary and sold the land of the second largest elementary this summer. The district also sold two of the three remaining elementary buildings in 2014. The last remaining building was renovated and is currently being used by the high school. The community took advantage of this tremendous financial support from the State and anticipates cost efficiencies being realized by the School District in the 2015-2016 school year.

The District is very concerned about the State's reimbursement of tangible property tax, which eliminated the collection of the tax on the business sector due to the passage of House Bill 66 in prior years. The State thus far has reimbursed schools at a rate of 100 percent of the loss of those tax dollars through fiscal year 2011. Starting in fiscal year 2012, however, this reimbursement was reviewed and reductions were made which had a negative effect on the School District's revenue. The Kenton City School District has restructured and entered into shared service agreements with other schools to continue to cut operating costs. These cost saving measures have put the District in a strong financial position for the upcoming years. We will continue to restructure spending and such shared service agreements with neighboring school districts in the future. We have been fortunate with some of the changes in the state funding formula in fiscal years 2014, 2015, 2016 and 2017. We have seen significant increases in state funding which will allow the district to not seek renewal of a half percentage income tax levy.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Tracy Hiller, Treasurer, Kenton City School District, 222 West Carrol Street, Kenton, Ohio 43326.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015

| | <u>Governmental Activities</u> |
|--|---|
| Assets: | |
| Equity in pooled cash and cash equivalents . . . | \$ 10,013,055 |
| Cash and cash equivalents with escrow agents . | <u>432,479</u> |
| Total assets. | <u>10,445,534</u> |
| Net cash position: | |
| Restricted for: | |
| Capital projects | 2,158,857 |
| Classroom facilities maintenance | 310,662 |
| Debt service. | 351,887 |
| Locally funded programs | 1,989 |
| State funded programs. | 1,800 |
| Federally funded programs | 3,999 |
| Public school support | 4,543 |
| Student activities | 122,122 |
| Other purposes | 439,701 |
| Unrestricted | <u>7,049,974</u> |
| Total net cash position | <u><u>\$ 10,445,534</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Cash Disbursements | Program Cash Receipts | | Net (Disbursement) Receipt and Change in Net Position |
|---|-----------------------|-----------------------------------|---------------------------------------|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 9,398,618 | \$ 975,911 | \$ 136,204 | \$ (8,286,503) |
| Special | 3,417,363 | 165,344 | 1,972,660 | (1,279,359) |
| Vocational | 207,715 | - | 25,664 | (182,051) |
| Support services: | | | | |
| Pupil | 569,637 | - | 1,081 | (568,556) |
| Instructional staff | 478,783 | - | 87,432 | (391,351) |
| Board of education | 82,847 | - | - | (82,847) |
| Administration | 1,755,529 | - | - | (1,755,529) |
| Fiscal | 439,790 | - | 578 | (439,212) |
| Operations and maintenance | 1,915,996 | 25,940 | 30,973 | (1,859,083) |
| Pupil transportation | 1,185,617 | 8,170 | 28,912 | (1,148,535) |
| Central | 5,225 | - | - | (5,225) |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | 44,698 | - | 2,517 | (42,181) |
| Food service operations | 921,281 | 268,958 | 646,040 | (6,283) |
| Extracurricular activities | 654,041 | 241,647 | 58,438 | (353,956) |
| Facilities acquisition and construction | 6,057,846 | - | - | (6,057,846) |
| Debt service: | | | | |
| Principal retirement | 340,000 | - | - | (340,000) |
| Interest and fiscal charges | 430,231 | - | - | (430,231) |
| Total governmental activities | \$ 27,905,217 | \$ 1,685,970 | \$ 2,990,499 | (23,228,748) |
| General receipts: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | 4,150,615 |
| Classroom facilities maintenance | | | | 82,670 |
| Debt service | | | | 709,202 |
| Income taxes levied for: | | | | |
| General purposes | | | | 2,975,941 |
| Grants and entitlements not restricted to specific programs | | | | 10,389,002 |
| Grants and entitlements restricted for Ohio Facilities Construction Commission | | | | 483,892 |
| Investment earnings | | | | 28,309 |
| Sale of capital assets | | | | 77,170 |
| Miscellaneous | | | | 155,724 |
| Total general receipts | | | | 19,052,525 |
| Change in net cash position | | | | (4,176,223) |
| Net cash position at beginning of year | | | | 14,621,757 |
| Net cash position at end of year | | | | \$ 10,445,534 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND CASH BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2015

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Classroom Facilities</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------------|---------------------------------|--|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$ 4,811,603 | \$ 2,356,821 | \$ 1,315,462 | \$ 1,529,169 | \$ 10,013,055 |
| Cash and cash equivalents with escrow agents | - | - | 432,479 | - | 432,479 |
| Total assets | <u>4,811,603</u> | <u>2,356,821</u> | <u>1,747,941</u> | <u>1,529,169</u> | <u>10,445,534</u> |
| Fund cash balances: | | | | | |
| Restricted: | | | | | |
| Debt service | - | - | - | 351,887 | 351,887 |
| Capital improvements | - | 60,000 | 1,747,941 | 350,916 | 2,158,857 |
| Classroom facilities maintenance | - | - | - | 310,662 | 310,662 |
| Food service operations | - | - | - | 438,003 | 438,003 |
| Targeted academic assistance | - | - | - | 250 | 250 |
| Other purposes | - | - | - | 13,779 | 13,779 |
| Extracurricular activities | - | - | - | 122,122 | 122,122 |
| Committed: | | | | | |
| Underground storage tank | 11,000 | - | - | - | 11,000 |
| Assigned: | | | | | |
| Student instruction | 140,552 | - | - | - | 140,552 |
| Student and staff support | 233,982 | - | - | - | 233,982 |
| Extracurricular activities | 26,922 | - | - | - | 26,922 |
| Subsequent year's appropriations | 799,934 | - | - | - | 799,934 |
| Capital improvements | - | 2,296,821 | - | - | 2,296,821 |
| Unassigned (deficit) | 3,599,213 | - | - | (58,450) | 3,540,763 |
| Total fund cash balances | <u>\$ 4,811,603</u> | <u>\$ 2,356,821</u> | <u>\$ 1,747,941</u> | <u>\$ 1,529,169</u> | <u>\$ 10,445,534</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Classroom Facilities</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------------|---------------------------------|--|---|
| Cash receipts: | | | | | |
| From local sources: | | | | | |
| Property taxes | \$ 4,150,615 | \$ - | \$ - | \$ 791,872 | \$ 4,942,487 |
| Income taxes | 2,975,941 | - | - | - | 2,975,941 |
| Tuition | 1,041,505 | - | - | - | 1,041,505 |
| Transportation fees | 8,170 | - | - | - | 8,170 |
| Earnings on investments | 24,852 | - | 2,648 | 809 | 28,309 |
| Charges for services | - | - | - | 269,031 | 269,031 |
| Extracurricular | 24,070 | - | - | 217,577 | 241,647 |
| Classroom materials and fees | 36,819 | - | - | - | 36,819 |
| Rental income | 25,940 | - | - | - | 25,940 |
| Contributions and donations | 4,366 | - | - | 40,480 | 44,846 |
| Contract services | 62,858 | - | - | - | 62,858 |
| Other local revenues | 168,717 | - | - | 2,599 | 171,316 |
| Intergovernmental - state | 11,226,904 | - | 483,892 | 222,718 | 11,933,514 |
| Intergovernmental - federal | 134,983 | - | - | 1,734,458 | 1,869,441 |
| Total cash receipts | <u>19,885,740</u> | <u>-</u> | <u>486,540</u> | <u>3,279,544</u> | <u>23,651,824</u> |
| Cash disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 9,240,179 | - | - | 158,439 | 9,398,618 |
| Special | 2,424,362 | - | - | 993,001 | 3,417,363 |
| Vocational | 207,715 | - | - | - | 207,715 |
| Support services: | | | | | |
| Pupil | 566,780 | - | - | 2,857 | 569,637 |
| Instructional staff | 391,970 | - | - | 86,813 | 478,783 |
| Board of education | 82,847 | - | - | - | 82,847 |
| Administration | 1,755,529 | - | - | - | 1,755,529 |
| Fiscal | 422,675 | - | - | 17,115 | 439,790 |
| Operations and maintenance | 1,821,007 | - | - | 94,989 | 1,915,996 |
| Pupil transportation | 1,185,617 | - | - | - | 1,185,617 |
| Central | 5,225 | - | - | - | 5,225 |
| Operation of non-instructional services: | | | | | |
| Other operation of non-instructional | 41,495 | - | - | 3,203 | 44,698 |
| Food service operations | - | - | - | 921,281 | 921,281 |
| Extracurricular activities | 441,011 | - | - | 213,030 | 654,041 |
| Facilities acquisition and construction | - | - | 4,234,194 | 1,823,652 | 6,057,846 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | 340,000 | 340,000 |
| Interest and fiscal charges | - | - | - | 430,231 | 430,231 |
| Total cash disbursements | <u>18,586,412</u> | <u>-</u> | <u>4,234,194</u> | <u>5,084,611</u> | <u>27,905,217</u> |
| Excess (deficiency) of cash receipts over (under) cash disbursements | <u>1,299,328</u> | <u>-</u> | <u>(3,747,654)</u> | <u>(1,805,067)</u> | <u>(4,253,393)</u> |
| Other financing sources (uses): | | | | | |
| Sale of capital assets | 17,170 | 60,000 | - | - | 77,170 |
| Transfers in | - | 2,000,000 | - | - | 2,000,000 |
| Transfers (out) | <u>(2,000,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,000,000)</u> |
| Total other financing sources (uses) | <u>(1,982,830)</u> | <u>2,060,000</u> | <u>-</u> | <u>-</u> | <u>77,170</u> |
| Net change in fund cash balances | (683,502) | 2,060,000 | (3,747,654) | (1,805,067) | (4,176,223) |
| Fund cash balances at beginning of year | <u>5,495,105</u> | <u>296,821</u> | <u>5,495,595</u> | <u>3,334,236</u> | <u>14,621,757</u> |
| Fund cash balances at end of year | <u>\$ 4,811,603</u> | <u>\$ 2,356,821</u> | <u>\$ 1,747,941</u> | <u>\$ 1,529,169</u> | <u>\$ 10,445,534</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>Actual</u> |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 3,822,916 | \$ 4,149,266 | \$ 4,150,615 | \$ 1,349 |
| Income taxes | 2,925,974 | 2,975,974 | 2,975,941 | (33) |
| Tuition | 1,087,580 | 1,012,680 | 1,041,505 | 28,825 |
| Transportation fees | 10,496 | 10,496 | 8,170 | (2,326) |
| Earnings on investments | 10,162 | 17,662 | 24,852 | 7,190 |
| Classroom materials and fees | 500 | 500 | 550 | 50 |
| Rental income | 27,118 | 27,118 | 25,940 | (1,178) |
| Contract services | 50,119 | 50,119 | 62,858 | 12,739 |
| Other local revenues | 20,777 | 24,777 | 22,177 | (2,600) |
| Intergovernmental - state | 10,272,163 | 11,183,163 | 11,226,905 | 43,742 |
| Intergovernmental - federal | 107,816 | 137,816 | 134,983 | (2,833) |
| Total budgetary basis receipts | <u>18,335,621</u> | <u>19,589,571</u> | <u>19,674,496</u> | <u>84,925</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,720,950 | 9,783,758 | 9,310,503 | 473,255 |
| Special | 2,691,571 | 2,595,698 | 2,433,199 | 162,499 |
| Vocational | 218,813 | 225,245 | 220,645 | 4,600 |
| Support services: | | | | |
| Pupil | 587,357 | 596,745 | 570,240 | 26,505 |
| Instructional staff | 405,351 | 422,779 | 412,475 | 10,304 |
| Board of education | 60,812 | 87,164 | 83,871 | 3,293 |
| Administration | 1,819,309 | 1,890,332 | 1,775,371 | 114,961 |
| Fiscal | 448,815 | 445,315 | 423,857 | 21,458 |
| Operations and maintenance | 1,912,886 | 2,275,988 | 2,004,557 | 271,431 |
| Pupil transportation | 1,015,516 | 1,270,514 | 1,190,035 | 80,479 |
| Central | 5,500 | 5,500 | 5,225 | 275 |
| Other operation of non-instructional services | 45,644 | 41,845 | 41,495 | 350 |
| Extracurricular activities | 381,489 | 445,819 | 396,858 | 48,961 |
| Total budgetary basis disbursements | <u>19,314,013</u> | <u>20,086,702</u> | <u>18,868,331</u> | <u>1,218,371</u> |
| Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements | <u>(978,392)</u> | <u>(497,131)</u> | <u>806,165</u> | <u>1,303,296</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 229,790 | 89,790 | 133,547 | 43,757 |
| Transfers (out) | - | (2,000,000) | (2,000,000) | - |
| Sale of capital assets | 3,600 | 3,600 | 17,170 | 13,570 |
| Total other financing sources (uses) | <u>233,390</u> | <u>(1,906,610)</u> | <u>(1,849,283)</u> | <u>57,327</u> |
| Net change in fund balance | (745,002) | (2,403,741) | (1,043,118) | 1,360,623 |
| Fund balance at beginning of year (restated) | 5,177,669 | 5,177,669 | 5,177,669 | - |
| Prior year encumbrances appropriated | 230,130 | 230,130 | 230,130 | - |
| Fund balance at end of year | <u>\$ 4,662,797</u> | <u>\$ 3,004,058</u> | <u>\$ 4,364,681</u> | <u>\$ 1,360,623</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET CASH POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

| | Private-Purpose Trust | |
|--|------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 32,331 | \$ 68,722 |
| Total assets. | 32,331 | \$ 68,722 |
| Liabilities: | | |
| Due to students. | - | \$ 68,722 |
| Total liabilities | - | \$ 68,722 |
| Net cash position: | | |
| Held in trust for students | 189 | |
| Held in trust for scholarships | 32,142 | |
| Total net cash position | \$ 32,331 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET CASH POSITION
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Private-Purpose Trust |
|---|----------------------------------|
| | Scholarship |
| Additions: | |
| Gifts and contributions | \$ 8,777 |
| Total additions | 8,777 |
| Deductions: | |
| Scholarships awarded | 7,843 |
| Change in net position | 934 |
| Net cash position at beginning of year . . | 31,397 |
| Net cash position at end of year | \$ 32,331 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - DESCRIPTION OF THE DISTRICT

Kenton City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1888. The District serves an area of approximately one-hundred- twelve square miles. It is located in Hardin and Wyandot Counties and includes all of Pleasant Township, portions of Cessna, Dudley, Goshen, Lynn, McDonald, and Taylor Creek Townships, and the City of Kenton. The District is the 257th largest in the State of Ohio (among 611 Districts) in terms of enrollment. It is staffed by 78 classified employees, 127 certified teaching personnel, and 26 administrative employees who provide services to 1,936 students and other community members. The District currently operates eight instructional/support buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Kenton City District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District. There are no component units of the Kenton City District.

The District participates in two jointly governed organizations and three insurance pools. These organizations are the Ohio Hi-Point Career Center, Western Ohio Computer Organization, Schools of Ohio Risk Sharing Authority, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation

The District's basic financial statements consist of government-wide financial 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

Fund Financial Statements - During the fiscal year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The 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 funds of the District are divided into two categories, governmental and fiduciary.

GOVERNMENTAL FUNDS

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's major governmental funds are the General Fund and the Building and Ohio School Facilities Commission capital projects funds.

General Fund - The general fund 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.

Permanent Improvement Fund - The permanent improvement fund accounts for transfers and the sale of property that are assigned and restricted, respectively, to acquiring or constructing capital facilities.

Classroom facilities fund - The classroom facilities fund is used to account for resources received and restricted for expenditures in connection with contracts entered into by the District and the Ohio School Facilities Commission for building an elementary school.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the District are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects, (b) financial resources that are restricted, committed or assigned to expenditures for principal and interest and (c) financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

FIDUCIARY FUNDS

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 District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide services to needy students and college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for various student-managed activities.

D. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the object level within each function for the General Fund and fund level for all other funds. Budgetary allocations at the function and object level for all other funds are made by the District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately for the District by escrow agents for payment of retainage to contractors upon project completion are recorded as "Cash and Cash Equivalents with Escrow Agents".

During fiscal year 2015, investments consisted of a U.S. Government money market account, Federal Home Loan Bank (FHLB) discount notes, Federal National Mortgage Association (FNMA) discount notes and Federal Home Loan Mortgage Corporation (FHLMC) bonds. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 was \$24,852, which includes \$8,578 assigned from other District funds. Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions.

Resources set aside in separate escrow accounts, whose use is limited to the payment of retainage to contractors, are reported as restricted.

H. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

I. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

K. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. Fund Balance

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

Nonspendable - The nonspendable classification 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" includes items that are not expected to be converted to cash.

Restricted - 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 are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the 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 - Amounts in the assigned classification are intended to be used by the 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. Assigned amounts represent intended uses established by the Board of Education. Fund balance policy of the Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

Unassigned - 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.

The District first applies restricted resources when an expenditure is 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 can be used.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2015, the follow funds had deficit fund balances:

| <u>Fund Type/Fund</u> | <u>Deficit</u> |
|----------------------------------|----------------|
| Special Revenue Funds: | |
| Public school preschool | \$ 5,879 |
| Vocational education enhancement | 1,353 |
| Title VI-B | 5,986 |
| Title I | 28,292 |
| Miscellaneous federal grants | 16,940 |

The general fund provides transfers to cover deficit balances; however, this is done when cash is needed.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position / fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

C. Change in Accounting Principles

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan disclosures, as presented in Note 10 to the financial statements, and added required supplementary information which is presented following the notes to basic financial statements.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The implementation of GASB Statement No. 68 did not have an effect on the financial statements of the District.

D. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2014 is as follows:

| Budgetary Basis | |
|----------------------------------|---------------------|
| | <u>General Fund</u> |
| Balance at June 30, 2014 | \$ 5,260,898 |
| Funds budgeted elsewhere | (83,229) |
| Restated balance at July 1, 2014 | <u>\$ 5,177,669</u> |

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the 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 the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies held by the District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security 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 any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Cash on Hand

At fiscal year end, the School District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits

At June 30, 2015, the carrying amount of all District deposits was \$8,098,108. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$4,437,662 of the District's bank balance of \$8,537,157 was exposed to custodial risk as discussed below, while \$4,099,495 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2015, the District has the following investments:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | |
|----------------------------|---------------------|------------------------------|-------------------------------|
| | | <u>6 months or less</u> | <u>Greater than 24 months</u> |
| FHLB discount note | \$ 748,196 | \$ 748,196 | \$ - |
| FNMA discount note | 949,458 | 949,458 | - |
| FHLMC | 250,000 | - | 250,000 |
| US Government money market | 500,625 | 500,625 | - |
| Total | <u>\$ 2,448,279</u> | <u>\$ 2,198,279</u> | <u>\$ 250,000</u> |

The weighted average maturity of investments is 0.50 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned the US Government money market an AAAM money market rating. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer other than for commercial paper and banker's acceptances. The following table includes the percentage of each investment type held by the District at June 30, 2015:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|----------------------------|---------------------|-------------------|
| FHLB discount note | \$ 748,196 | 30.56 |
| FNMA discount note | 949,458 | 38.78 |
| FHLMC | 250,000 | 10.21 |
| US Government money market | 500,625 | 20.45 |
| Total | <u>\$ 2,448,279</u> | <u>100.00</u> |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

| | |
|--|---------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 8,098,108 |
| Investments | 2,448,279 |
| Cash on hand | 200 |
| Total | \$ 10,546,587 |
| <u>Cash and investments per financial statements</u> | |
| Governmental activities | \$ 10,445,534 |
| Private-purpose trust funds | 32,331 |
| Agency funds | 68,722 |
| Total | \$ 10,546,587 |

NOTE 5- INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2015, consisted of the following, as reported on the fund statements:

| | |
|--|---------------|
| <u>Transfers from the general fund to:</u> | <u>Amount</u> |
| Permanent improvement fund | \$ 2,000,000 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2015 taxes were collected are:

| | 2014 Second Half Collections | | 2015 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 191,912,900 | 95.14 | \$ 223,798,410 | 95.78 |
| Public utility personal | <u>9,812,410</u> | <u>4.86</u> | <u>9,868,210</u> | <u>4.22</u> |
| Total | <u>\$ 201,725,310</u> | <u>100.00</u> | <u>\$ 233,666,620</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | | | | |
| General operations | \$ 34.20 | | \$ 34.20 | |
| Bond retirement | 3.50 | | 3.50 | |
| Classroom facilities maint. | 0.50 | | 0.50 | |

NOTE 7 - INCOME TAXES

The District levies a voted tax of 1.5 percent for general operations on the income of residents and of estates. A portion of the tax (1 percent) was effective on January 1, 1996, and is for a continuing period. The remaining .5 percent was effective on January 1, 2011, and is for a five-year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 8 - RISK MANAGEMENT

The 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. During fiscal year 2015, the District contracted for the following insurance coverage.

Coverage provided by the Schools of Ohio Risk Sharing Authority is as follows:

| | |
|----------------------|---------------|
| Property | \$ 86,939,724 |
| General Liability | |
| Per Occurrence | 15,000,000 |
| Aggregate | 17,000,000 |
| Automobile Liability | 15,000,000 |
| Uninsured Motorists | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 8 - RISK MANAGEMENT – (Continued)

For fiscal year 2015, the District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

The District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust), a public entity shared risk pool consisting of six Districts, the Hardin County Educational Service Center, and the Ada Public Library. The District pays monthly premiums to the Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The District participates in the Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participants' claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

NOTE 9 - COMMITMENTS

The District has several outstanding contracts for professional services. The following amounts remain on these contracts as of June 30, 2015:

| Vendor | Contract Amount | Amount Paid as of 6/30/15 | Outstanding Balance |
|-------------------------|--------------------|------------------------------|------------------------|
| Salenbien Trucking | \$ 161,000 | \$ 144,440 | \$ 16,560 |
| Smoot Elford McDaniel's | 225,525 | 140,056 | 85,469 |
| Stan and Associates | 49,354 | 46,341 | 3,013 |

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-end Encumbrances</u> |
|---------------------------|----------------------------------|
| General fund | \$ 376,918 |
| Classroom facilities fund | 48,134 |
| Other governmental | <u>241,931</u> |
| Total | <u>\$ 666,983</u> |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|--|---|--|
| Full benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially reduced benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |
| * Members with 25 years of service credit as of August 1, 2017, will be included in this plan. | | |

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$303,383 for fiscal year 2015.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. 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 includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION PLANS - (Continued)

Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$1,191,532 for fiscal year 2015.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

| | <u>SERS</u> | <u>STRS Ohio</u> | <u>Total</u> |
|--|-------------|------------------|--------------|
| Proportionate share of the net pension liability | \$3,881,743 | \$19,500,761 | \$23,382,504 |
| Proportion of the net pension liability | 0.076700% | 0.08017264% | |

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

| | |
|--|--|
| Wage inflation | 3.25 percent |
| Future salary increases, including inflation | 4.00 percent to 22 percent |
| COLA or ad hoc COLA | 3 percent |
| Investment rate of return | 7.75 percent net of investments expense, including inflation |
| Actuarial cost method | Entry age normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS - (Continued)

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | 100.00 % | |

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$5,538,094 | \$3,881,743 | \$2,488,609 |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment rate of return | 7.75 percent, net of investment expenses |
| Cost-of-living adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | 100.00 % | |

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$27,917,465 | \$19,500,761 | \$12,383,061 |

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 (the latest information available) was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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 105(e). For 2015, 0.82 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the actuarially determined amount was \$20,450.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014 and 2013 were \$59,196, \$2,990 and \$3,408, respectively; 91.56 percent has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2015, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2015, 2014, and 2013 were \$18,047, \$16,231 and \$15,762, respectively; 91.56 percent has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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, under "Publications" 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 2015, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$71,422 and \$79,626, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, except for the superintendent and treasurer, do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred ten days for teachers and two-hundred-five days for administrative and classified employees. Upon retirement, teachers and administrative staff will be paid one-fourth of the total sick leave accumulation, not to exceed forty days with five years of service, forty-one days with ten years of service, forty-two days with twenty years of service, and forty-three days with thirty years of service. Payment is made for one-fourth of the total sick leave accumulation, not to exceed thirty-eight days for classified employees. In addition all employees will be paid for a maximum of five days for sick leave accumulated beyond one hundred ninety-nine days. Payment is based upon the employee's salary at the time of retirement.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - OTHER EMPLOYEE BENEFITS

B. Health Care Benefits

The District offers medical, dental, vision, and life insurance benefits to most employees through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2015 were as follows:

| | Balance 6/30/14 | Additions | Reductions | Balance 6/30/15 | Due Within One Year |
|--|----------------------|------------------|---------------------|----------------------|------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | | | | | |
| FY 2012 School Facilities Construction and Improvement Bonds | | | | | |
| Serial Bonds 1.5-4% | \$ 8,015,000 | \$ - | \$ (340,000) | \$ 7,675,000 | \$ 355,000 |
| Term Bonds 4% | 4,705,000 | - | | 4,705,000 | - |
| Capital Appreciation Bonds | 29,587 | - | | 29,587 | - |
| Accretion on Capital | | | | - | - |
| Appreciation Bonds | 21,945 | 14,853 | | 36,798 | - |
| Premium | 308,173 | - | (8,218) | 299,955 | - |
| Discount | (136,773) | - | 3,647 | (133,126) | - |
| | | | | - | - |
| Total General Obligation Bonds | \$ 12,942,932 | \$ 14,853 | \$ (344,571) | \$ 12,613,214 | \$ 355,000 |

FY 2012 School Facilities Construction and Improvement Bonds - On April 24, 2012, the District issued \$13,604,587 in voted general obligation bonds for constructing and equipping school facilities. The bond issue consists of serial, term, and capital appreciation bonds, in the original amount of \$8,870,000, \$4,705,000, and \$29,587, respectively. The bonds were issued for a twenty-eight fiscal year period, with final maturity in fiscal year 2040. The bonds are being retired through the Bond Retirement debt service fund.

The bonds maturing on December 1, 2039, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the years and the respective principal amounts as follows:

| Year | Amount |
|------|------------|
| 2033 | \$ 595,000 |
| 2034 | 620,000 |
| 2035 | 645,000 |
| 2036 | 670,000 |
| 2037 | 695,000 |
| 2038 | 725,000 |

The remaining principal, in the amount of \$755,000, will be paid at stated maturity on December 1, 2039.

The bonds maturing on or after December 1, 2022, are subject to redemption at the option of the District, either in whole or in part, in such order of maturity as the District shall determine, on any date on or after December 1, 2021, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds mature in fiscal year 2022. The maturity amount of the bonds is \$295,000. For fiscal year 2015, \$14,853 was accreted for a total bond value of \$66,682 at fiscal year-end.

The District's overall debt margin was \$8,935,498 with an unvoted debt margin of \$233,667 at June 30, 2015.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2015, were as follows:

| Fiscal Year Ending June 30, | General Obligation Bonds | | | | | |
|-----------------------------------|--------------------------|---------------------|----------------------|----------------------|-------------------|-------------------|
| | Serial & Term | | | Capital Appreciation | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2016 | \$ 355,000 | \$ 423,281 | \$ 778,281 | \$ - | \$ - | \$ - |
| 2017 | 365,000 | 416,993 | 781,993 | - | - | - |
| 2018 | 370,000 | 410,556 | 780,556 | - | - | - |
| 2019 | 375,000 | 403,106 | 778,106 | - | - | - |
| 2020 | 385,000 | 395,025 | 780,025 | - | - | - |
| 2021 - 2025 | 1,760,000 | 1,833,170 | 3,593,170 | 29,587 | 265,413 | 295,000 |
| 2026 - 2030 | 2,400,000 | 1,468,574 | 3,868,574 | - | - | - |
| 2031 - 2035 | 3,525,000 | 1,113,048 | 4,638,048 | - | - | - |
| 2036 - 2040 | 3,480,000 | 360,000 | 3,840,000 | - | - | - |
| Total | \$ 13,015,000 | \$ 6,823,753 | \$ 19,838,753 | \$ 29,587 | \$ 265,413 | \$ 295,000 |

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the District entered into capital leases for the acquisition of buses, dishwashers and a bobcat. In the current fiscal year, the District entered into a capital lease for the acquisition of laptops. Each lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The original amount of the leases was \$368,461. The District made \$143,261 in principal payments on the leases during fiscal year 2015. Capital lease payments are reflected as regular, operation and maintenance, pupil transportation and food service operations disbursements for governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|--------------------------|
| 2016 | \$ 45,117 |
| 2017 | 41,076 |
| 2018 | <u>39,971</u> |
| Total minimum lease payments | 126,164 |
| Less: amount representing interest | <u>(17,587)</u> |
| Total | <u>\$ 108,577</u> |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2014 | \$ - |
| Current year set-aside requirement | 333,078 |
| Contributions in excess of the current fiscal year set-aside requirement | - |
| Current year qualifying expenditures | |
| Excess qualified expenditures from prior years | - |
| Current year offsets | (2,094,036) |
| Waiver granted by ODE | - |
| Prior year offset from bond proceeds | - |
| Total | <u>\$ (1,760,958)</u> |
| Balance carried forward to fiscal year 2016 | <u>\$ -</u> |
| Set-aside balance June 30, 2015 | <u>\$ -</u> |

During fiscal year 2012, the District issued a total of \$13,604,587 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$13,604,587 at June 30, 2015.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Career Center

The Ohio Hi-Point Career Center (Career Center) (formerly the Ohio Hi-Point Joint Vocational School) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the eleven participating Districts' elected boards. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the District is limited to its representation on the Board. Financial information can be obtained from the Ohio Hi-Point Career Center, 2280 State Route 540, Bellefontaine, Ohio 43311.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

B. Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of governments within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member Districts within each county plus a representative from the fiscal agent District. During fiscal year 2015, the District paid \$65,526 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

NOTE 17 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

B. Hardin County School Employees' Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust) is a public entity shared risk pool consisting of six Districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant appoints an individual to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 T.R. 50, Dola, Ohio 45835.

C. Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan) was established through the Better Business Bureau of Ohio as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 18 - CONTINGENCIES

A. Grants

The 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

B. Litigation

There are currently no matters in litigation with the District as defendant.

C. Full-Time Equivalency

The District's Foundation funding is based on the annualized full-time equivalent (EFT) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extended past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Scholl District.

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year-end encumbrances that are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund:

Net Change in Fund Cash Balance

| | <u>General fund</u> |
|-----------------------------|------------------------------|
| Cash basis | \$ (683,502) |
| Funds budgeted elsewhere | 12,036 |
| Adjustment for encumbrances | <u>(371,652)</u> |
| Budget basis | <u><u>\$ (1,043,118)</u></u> |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, public school support fund, special trust fund, rotary fund and termination benefits funds.

SUPPLEMENTARY INFORMATION

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

| | 2014 | 2013 |
|---|--------------|--------------|
| District's proportion of the net pension liability | 0.07670000% | 0.07670000% |
| District's proportionate share of the net pension liability | \$ 3,881,743 | \$ 4,561,103 |
| District's covered-employee payroll | \$ 2,228,750 | \$ 2,129,943 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 174.17% | 214.14% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.70% | 65.52% |

Note: Information prior to fiscal year 2013 was unavailable.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

| | 2014 | 2013 |
|---|---------------|---------------|
| District's proportion of the net pension liability | 0.08017264% | 0.08017264% |
| District's proportionate share of the net pension liability | \$ 19,500,761 | \$ 23,229,179 |
| District's covered-employee payroll | \$ 8,191,429 | \$ 7,795,493 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 238.06% | 297.98% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.70% | 69.30% |

Note: Information prior to fiscal year 2013 was unavailable.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|
| Contractually required contribution | \$ 341,428 | \$ 312,025 | \$ 298,192 |
| Contributions in relation to the contractually required contribution | <u>(341,428)</u> | <u>(312,025)</u> | <u>(298,192)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 2,438,771 | \$ 2,228,750 | \$ 2,129,943 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% | 14.00% |

Note: Information prior to fiscal year 2013 was unavailable.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 1,191,532 | \$ 1,146,800 | \$ 1,091,369 |
| Contributions in relation to the contractually required contribution | <u>(1,191,532)</u> | <u>(1,146,800)</u> | <u>(1,091,369)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 8,510,943 | \$ 8,191,429 | \$ 7,795,493 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% | 14.00% |

Note: Information prior to fiscal year 2013 was unavailable.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

NOTES TO SUPPLEMENTARY INFORMATION FOR THE
FISCAL YEAR ENDED JUNE 30, 2015
(SEE ACCOUNTANT'S COMPILATION REPORT)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|----------------------------------|---------------------------|--------------|----------------------|---------------|---------------------------|
| United States Department of Agriculture | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| <i>Child Nutrition Cluster:</i> | | | | | | |
| National School Lunch Program | 3L60 | 10.555 | \$ 493,654 | \$ 59,334 | \$ 493,654 | \$ 59,334 |
| School Breakfast Program | 3L70 | 10.553 | 122,505 | - | 122,505 | - |
| Summer Food Service Program for Children | 3L60 | 10.559 | 17,512 | - | 17,512 | - |
| Total Nutrition Cluster | | | 633,671 | 59,334 | 633,671 | 59,334 |
| Total United States Department of Agriculture | | | 633,671 | 59,334 | 633,671 | 59,334 |
| United States Department of Education | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| <i>Title I, Part A Cluster:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 3M00 | 84.010 | 530,017 | - | 570,622 | - |
| Total Title I, Part A Cluster | | | 530,017 | - | 570,622 | - |
| <i>Special Education Cluster (IDEA):</i> | | | | | | |
| Special Education - Grants to States (IDEA, Part B) | 3M20 | 84.027 | 401,004 | - | 408,904 | - |
| Special Education - Preschool Grants (IDEA Preschool) | 3C50 | 84.173 | 8,760 | - | 8,760 | - |
| Total Special Education Cluster | | | 409,764 | - | 417,664 | - |
| Rural Education | 3Y80 | 84.358 | 9,632 | - | 29,180 | - |
| Improving Teacher Quality State Grants | 3Y60 | 84.367 | 104,779 | - | 108,951 | - |
| State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, ARRA | 3FD0 | 84.395 | 64,161 | - | 59,012 | - |
| Total United States Department of Education | | | 1,118,353 | - | 1,185,429 | - |
| Total Federal Financial Assistance | | | \$ 1,752,024 | \$ 59,334 | \$ 1,819,100 | \$ 59,334 |

See accompanying notes to the schedule of federal awards receipts and expenditures.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

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 (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2015, wherein noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of the Board of Education
Kenton City School District
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
November 24, 2015



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

Report on Compliance with Requirements Applicable to The Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Members of the Board of Education
Kenton City School District
222 West Carrol Street
Kenton, Ohio 43326

Report on Compliance for the Major Federal Program

We have audited the Kenton City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Kenton City School District's major federal program for the year ended June 30, 2015. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Kenton City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement 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 would not necessarily 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.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
October 22, 2015

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2015

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant internal control deficiencies reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Program's Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under §.510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Nutrition Cluster: National School Lunch Program; CFDA# 10.555 School Breakfast program; CFDA# 10.553 Summer Food Service Program for Children; CFDA #10.559 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2015

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

FINDING NUMBER 2015-001

Material Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

The District should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Client Response:

District officials do not believe preparing GAAP statements is cost beneficial for the District.

3. FINDINGS FOR FEDERAL AWARDS

None noted

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|---------------------------|---|-----------------------------|--|
| 2014-001 | Material Noncompliance – ORC Section 117.38 requiring the District to report its financial statements in accordance with GAAP | No | Reissued as Item 2015-001 |



Dave Yost • Auditor of State

KENTON CITY SCHOOL DISTRICT

HARDIN 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 4, 2016**