



Dave Yost • Auditor of State

**PORTSMOUTH CITY SCHOOL DISTRICT
SCIOTO COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis..... | 5 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 13 |
| Statement of Activities..... | 14 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 15 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .. | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund..... | 19 |
| Statement of Fiduciary Net Position – Fiduciary Funds | 20 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Fund | 21 |
| Notes to the Basic Financial Statements | 23 |
| Required Supplementary Information: | |
| Schedule of the School District's Proportionate Share of the Net Pension Liability - School Employees Retirement System of Ohio – Last Three Fiscal Years..... | 59 |
| Schedule of the School District's Proportionate Share of the Net Pension Liability - State Teachers Retirement System of Ohio – Last Three Fiscal Years | 60 |
| Schedule of School Contributions – School Employees Retirement System of Ohio – Last Ten Fiscal Years | 61 |
| Schedule of School Contributions – State Teachers Retirement System of Ohio – Last Ten Fiscal Years | 62 |
| Schedule of Expenditures of Federal Awards (prepared by Treasurer) | 63 |
| Notes to the Schedule of Expenditures of Federal Awards (prepared by Treasurer)..... | 64 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 65 |

**PORTSMOUTH CITY SCHOOL DISTRICT
SCIOTO COUNTY**

**TABLE OF CONTENTS
(Continued)**

| TITLE | PAGE |
|---|-------------|
| Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 67 |
| Schedule of Findings – 2 CFR § 200.15 | 69 |



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Portsmouth City School District
Scioto County
724 Findlay Street
Portsmouth, Ohio 45662

To the Board of Education:

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 Portsmouth City School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 School 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 School 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Portsmouth City School District, Scioto County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is 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 the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2017

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Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The discussion and analysis of the Portsmouth City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements, and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- In total, net position of governmental activities decreased \$61,112 from the prior fiscal year. This is primarily due to current fiscal year depreciation of capital assets.
- General revenues accounted for \$25,578,528. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$7,734,093. Total revenues for the School District were \$33,312,621.
- The School District had \$33,373,733 in expenses related to governmental activities; only \$7,734,093 of these expenses were offset by program specific charges for services and sales, grants, contributions, and interest. General revenues (primarily grants and entitlements and property taxes) of \$25,578,528 were not adequate to provide for these programs.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Portsmouth City School District as a financial whole, an entire operating entity.

The Statement of Net Position and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements 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 School District's major funds with all other nonmajor funds presented in total in one column.

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2016?” The Statement of Net Position and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the School District has only one kind of activity:

- Governmental Activities – All of the School District’s programs and services are reported here including instruction, support services, extracurricular activities, and food service operations.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 11. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds, which are the General Fund and the Bond Retirement Debt Service Fund.

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

Fiduciary Funds - The School District’s fiduciary funds are a private purpose trust fund and an agency fund. The School District’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the accrual basis of accounting.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District’s net position for fiscal year 2016 and fiscal year 2015:

| Table 1 | | | |
|---|--------------|--------------|-------------|
| Net Position | | | |
| | 2016 | 2015 | Change |
| <u>Assets:</u> | | | |
| Current and Other Assets | \$13,386,752 | \$12,746,872 | \$639,880 |
| Capital Assets, Net | 50,451,541 | 52,357,395 | (1,905,854) |
| <i>Total Assets</i> | 63,838,293 | 65,104,267 | (1,265,974) |
| <u>Deferred Outflows of Resources:</u> | | | |
| Deferred Charges on Refunding | 257,810 | 316,244 | (58,434) |
| Pension | 3,056,482 | 1,964,950 | 1,091,532 |
| <i>Total Deferred Outflows of Resources</i> | \$3,314,292 | \$2,281,194 | \$1,033,098 |

(continued)

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 1
Net Position
(Continued)

| | 2016 | 2015 | Change |
|--|---------------------|---------------------|--------------------|
| <u>Liabilities:</u> | | | |
| Current and Other Liabilities | \$2,388,267 | \$2,717,412 | (\$329,145) |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,192,731 | 1,303,376 | (110,645) |
| Due In More Than One Year: | | | |
| Net Pension Liability | 30,770,377 | 27,139,643 | 3,630,734 |
| Other Amounts | 11,397,312 | 12,347,302 | (949,990) |
| Total Liabilities | 45,748,687 | 43,507,733 | 2,240,954 |
| <u>Deferred Inflows of Resources:</u> | | | |
| Property Taxes | 5,777,984 | 5,382,514 | 395,470 |
| Pension | 2,105,460 | 4,913,648 | (2,808,188) |
| Total Deferred Inflows of Resources | 7,883,444 | 10,296,162 | (2,412,718) |
| <u>Net Position:</u> | | | |
| Net Investment in Capital Assets | 40,367,566 | 41,428,439 | (1,060,873) |
| Restricted | 4,368,802 | 4,276,828 | 91,974 |
| Unrestricted (Deficit) | (31,215,914) | (32,123,701) | 907,787 |
| Total Net Position | \$13,520,454 | \$13,581,566 | (\$61,112) |

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

*Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Total Assets decreased \$1,265,974 mainly due to current year depreciation exceeding current year additions.

Total Liabilities of the School District increased \$2,240,954 for fiscal year 2016 when compared to the prior fiscal year. This increase is mainly due to a \$3,630,734 increase in net pension liability.

The primary factor contributing to the decrease in Net Investment in Capital Assets from the prior fiscal year was that current year depreciation exceeded current year additions to capital assets.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2
Change in Net Position

| | 2016 | 2015 | Increase/ (Decrease) |
|--|---------------------|---------------------|-------------------------|
| <u>Revenues:</u> | | | |
| Program Revenues: | | | |
| Charges for Services and Sales | \$923,981 | \$848,073 | \$75,908 |
| Operating Grants, Contributions, and Interest | 6,810,112 | 6,940,792 | (130,680) |
| Total Program Revenues | 7,734,093 | 7,788,865 | (54,772) |
| General Revenues: | | | |
| Property Taxes | 6,082,454 | 5,598,513 | 483,941 |
| Grants and Entitlements not Restricted to Specific Programs | 19,392,340 | 19,545,451 | (153,111) |
| Contributions and Donations | 1,437 | 250 | 1,187 |
| Investment Earnings | 32,678 | 25,412 | 7,266 |
| Miscellaneous | 69,619 | 95,124 | (25,505) |
| Gain on Sale of Capital Assets | 0 | 52,500 | (52,500) |
| Total General Revenues | 25,578,528 | 25,317,250 | 261,278 |
| Total Revenues | 33,312,621 | 33,106,115 | 206,506 |
| Program Expenses: | | | |
| Instruction: | | | |
| Regular | 16,558,673 | 16,568,891 | (10,218) |
| Special | 5,676,339 | 5,937,544 | (261,205) |
| Vocational | 201,750 | 234,800 | (33,050) |
| Student Intervention Services | 72,663 | 337,147 | (264,484) |
| Support Services: | | | |
| Pupils | 1,316,185 | 1,348,918 | (32,733) |
| Instructional Staff | 709,803 | 1,065,967 | (356,164) |
| Board of Education | 23,776 | 19,127 | 4,649 |
| Administration | 1,884,821 | 1,897,102 | (12,281) |
| Fiscal | 850,263 | 844,635 | 5,628 |
| Business | 116,652 | 100,199 | 16,453 |
| Operation and Maintenance of Plant | 2,605,700 | 2,771,877 | (166,177) |
| Pupil Transportation | 528,067 | 520,317 | 7,750 |
| Central | 72,402 | 113,145 | (40,743) |
| Operation of Non-Instructional Services | 1,781,700 | 1,549,896 | 231,804 |
| Extracurricular Activities | 432,150 | 377,840 | 54,310 |
| Interest and Fiscal Charges | 542,789 | 476,668 | 66,121 |
| Total Expenses | 33,373,733 | 34,164,073 | (790,340) |
| Change in Net Position | (61,112) | (1,057,958) | 996,846 |
| Net Position Beginning of Year | 13,581,566 | 14,639,524 | (1,057,958) |
| Net Position End of Year | \$13,520,454 | \$13,581,566 | (\$61,112) |

The statement of activities shows the cost of program services and the charges for services and sales, and operating grants, contributions and interest.

Program revenues, which are primarily represented by charges for tuition, fees, sales, and extracurricular activities, as well as restricted intergovernmental revenue were \$7,734,093 for fiscal year 2016. The most significant decrease in program revenues was in Operating Grants, Contributions, and Interest which

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

resulted from the School District not receiving additional Straight A funding and additional miscellaneous State grants funding in fiscal year 2016 compared to the prior year.

As previously mentioned, general revenues were \$25,578,528 for fiscal year 2016. The majority of these revenues are in the form of Grants and Entitlements not Restricted to Specific Programs and Property Taxes. General revenues increased slightly due to property taxes increasing in fiscal year 2016 due to an increase in assessed values.

As should be expected, Instruction costs represent the largest of the School District's expenses for fiscal year 2016. Instruction expenses decreased \$568,957 in fiscal year 2016 from fiscal year 2015. A large majority of this decrease was related to the School District monitoring expenditures closely.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants and contributions, including interest, offsetting those services. Regular Instruction, which represents expenses for general classroom instruction, receives revenues to offset its costs. Another of these programs is Special Instruction which provides for its costs primarily in the form of operating grants restricted for special instruction. Another program which receives a large amount of revenues to offset costs is Operation of Non-Instructional Services. This is primarily due to cafeteria sales and State and federal subsidies and donated commodities for food service.

The School District's Funds

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$33,272,120 and expenditures of \$32,740,183. The net change in fund balance for the fiscal year in the General Fund was an increase of \$491,515 which was due to revenues exceeding expenditures when compared to the prior year.

The Bond Retirement Debt Service Fund balance decreased \$307,250. This was the result of revenues for the fiscal year, consisting of property taxes, homestead and rollback reimbursements, and interest, being less than the School District's annual debt payments.

General Fund - Budget Highlights

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

During the course of fiscal year 2016, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

A review of the budgetary comparison statement for the General Fund reflects an increase of \$546,429 in revenues from the original budget to the final budget which is slightly significant. This is due to an

Portsmouth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

increase in property tax collections in fiscal year 2016. There was not a significant change in actual revenue to final revenues.

The total increase in expenditures from the original to the final budget was \$301,587, which is insignificant. There was no difference in actual expenditures made from the final budget because, prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$50,451,541 invested in capital assets (net of accumulated depreciation). Additions to capital assets include land improvements and various furniture, fixtures, and equipment. For further information regarding the School District's capital assets, refer to Note 8 in the Notes to the Basic Financial Statements.

Debt

At June 30, 2016, the School District had \$10,938,506 in bonds and bond premiums outstanding, \$895,000 of which is due within one year. At fiscal year-end, the School District's ending capital lease liability was \$28,905. For further information regarding the School District's long-term obligations, refer to Notes 13 and 14 in the Notes to the Basic Financial Statements.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact Dianna Reedy, at Portsmouth City School District, 724 Findlay Street, Portsmouth, Ohio 45662, or e-mail at dianna.reedy@portsmouthtrojans.net.

Portsmouth City School District
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|---|----------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$5,234,578 |
| Accounts Receivable | 182 |
| Accrued Interest Receivable | 6,685 |
| Intergovernmental Receivable | 695,051 |
| Prepaid Items | 14,601 |
| Inventory Held for Resale | 33,678 |
| Materials and Supplies Inventory | 20,492 |
| Property Taxes Receivable | 7,381,485 |
| Capital Assets: | |
| Land and Paintings | 7,590,892 |
| Depreciable Capital Assets, Net | 42,860,649 |
| <i>Total Assets</i> | 63,838,293 |
| <u>Deferred Outflows of Resources:</u> | |
| Deferred Charges on Refunding | 257,810 |
| Pension | 3,056,482 |
| <i>Total Deferred Outflows of Resources</i> | 3,314,292 |
| <u>Liabilities:</u> | |
| Accounts Payable | 74,024 |
| Accrued Wages and Benefits Payable | 2,017,443 |
| Intergovernmental Payable | 265,017 |
| Accrued Interest Payable | 31,783 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,192,731 |
| Due in More Than One Year: | |
| Net Pension Liability (See Note 10) | 30,770,377 |
| Other Amounts | 11,397,312 |
| <i>Total Liabilities</i> | 45,748,687 |
| <u>Deferred Inflows of Resources:</u> | |
| Property Taxes | 5,777,984 |
| Pension | 2,105,460 |
| <i>Total Deferred Inflows of Resources</i> | 7,883,444 |
| <u>Net Position:</u> | |
| Net Investment in Capital Assets | 40,367,566 |
| Restricted for: | |
| Debt Service | 1,913,170 |
| Capital Projects | 688,487 |
| Food Service Operations | 150,954 |
| Special Donations | 69,792 |
| Facilities Maintenance | 1,163,992 |
| State Grants | 137,188 |
| Federal Grants | 245,219 |
| Unrestricted (Deficit) | (31,215,914) |
| <i>Total Net Position</i> | \$13,520,454 |

See accompanying notes to the basic financial statements

Portsmouth City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------------|--------------------------------------|---|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions, and Interest |
| <u>Governmental Activities:</u> | | | Governmental Activities |
| Instruction: | | | |
| Regular | \$16,558,673 | \$447,738 | \$72,164 |
| Special | 5,676,339 | 99,829 | 4,793,802 |
| Vocational | 201,750 | 0 | 43,447 |
| Student Intervention Services | 72,663 | 0 | 6,988 |
| Support Services: | | | |
| Pupils | 1,316,185 | 660 | 96,253 |
| Instructional Staff | 709,803 | 0 | 119,732 |
| Board of Education | 23,776 | 0 | 0 |
| Administration | 1,884,821 | 42,487 | 167,653 |
| Fiscal | 850,263 | 0 | 0 |
| Business | 116,652 | 51,175 | 0 |
| Operation and Maintenance of Plant | 2,605,700 | 85,581 | 0 |
| Pupil Transportation | 528,067 | 0 | 3,831 |
| Central | 72,402 | 0 | 0 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 1,314,358 | 70,241 | 1,149,996 |
| Other | 467,342 | 0 | 355,211 |
| Extracurricular Activities | 432,150 | 126,270 | 1,035 |
| Interest and Fiscal Charges | 542,789 | 0 | 0 |
| Total Governmental Activities | \$33,373,733 | \$923,981 | \$6,810,112 |

General Revenues:

| | |
|--|---------------------|
| Property Taxes Levied for: | |
| General Purposes | 4,688,910 |
| Debt Service | 858,896 |
| Capital Outlay | 534,648 |
| Grants and Entitlements not Restricted to Specific Programs | 19,392,340 |
| Contributions and Donations | 1,437 |
| Investment Earnings | 32,678 |
| Miscellaneous | 69,619 |
| Total General Revenues | 25,578,528 |
| Change in Net Position | (61,112) |
| Net Position at Beginning of Year | 13,581,566 |
| Net Position at End of Year | \$13,520,454 |

See accompanying notes to the basic financial statements

Portsmouth City School District

Balance Sheet

Governmental Funds

June 30, 2016

| | General Fund | Bond Retirement Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|----------------------------|-----------------------------------|--------------------------------|
| <u>Assets:</u> | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,444,043 | \$1,706,169 | \$2,046,902 | \$5,197,114 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 37,464 | 0 | 0 | 37,464 |
| Receivables: | | | | |
| Property Taxes | 5,684,528 | 1,049,081 | 647,876 | 7,381,485 |
| Accounts | 182 | 0 | 0 | 182 |
| Intergovernmental | 26,032 | 0 | 669,019 | 695,051 |
| Accrued Interest | 6,685 | 0 | 0 | 6,685 |
| Interfund | 158,337 | 0 | 0 | 158,337 |
| Prepaid Items | 11,452 | 0 | 3,149 | 14,601 |
| Materials and Supplies Inventory | 12,928 | 0 | 7,564 | 20,492 |
| Inventory Held for Resale | 0 | 0 | 33,678 | 33,678 |
| <i>Total Assets</i> | <u>\$7,381,651</u> | <u>\$2,755,250</u> | <u>\$3,408,188</u> | <u>\$13,545,089</u> |
| <u>Liabilities:</u> | | | | |
| Accounts Payable | \$63,756 | \$0 | \$10,268 | \$74,024 |
| Accrued Wages and Benefits Payable | 1,700,961 | 0 | 316,482 | 2,017,443 |
| Intergovernmental Payable | 226,608 | 0 | 38,409 | 265,017 |
| Interfund Payable | 0 | 0 | 158,337 | 158,337 |
| <i>Total Liabilities</i> | <u>1,991,325</u> | <u>0</u> | <u>523,496</u> | <u>2,514,821</u> |
| <u>Deferred Inflows of Resources:</u> | | | | |
| Property Taxes | 4,462,304 | 810,297 | 505,383 | 5,777,984 |
| Unavailable Revenue | 992,795 | 193,504 | 473,237 | 1,659,536 |
| <i>Total Deferred Inflows of Resources</i> | <u>5,455,099</u> | <u>1,003,801</u> | <u>978,620</u> | <u>7,437,520</u> |
| <u>Fund Balances:</u> | | | | |
| Nonspendable | 24,380 | 0 | 10,713 | 35,093 |
| Restricted | 37,464 | 1,751,449 | 2,024,237 | 3,813,150 |
| Committed | 397,681 | 0 | 43,955 | 441,636 |
| Assigned | 91,177 | 0 | 1,440 | 92,617 |
| Unassigned (Deficit) | (615,475) | 0 | (174,273) | (789,748) |
| <i>Total Fund Balances (Deficit)</i> | <u>(64,773)</u> | <u>1,751,449</u> | <u>1,906,072</u> | <u>3,592,748</u> |
| <i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i> | <u>\$7,381,651</u> | <u>\$2,755,250</u> | <u>\$3,408,188</u> | <u>\$13,545,089</u> |

See accompanying notes to the basic financial statements

Portsmouth City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

Total Governmental Fund Balances \$3,592,748

**Amounts reported for governmental activities in the
 Statement of Net Position are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | |
|----------------------------|--------------|
| Land | 7,537,849 |
| Paintings | 53,043 |
| Depreciable capital assets | 64,867,859 |
| Accumulated depreciation | (22,007,210) |

Total capital assets 50,451,541

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds.

| | |
|---------------------------|-----------|
| Delinquent property taxes | 1,299,646 |
| Intergovernmental | 357,961 |
| Accrued Interest | 1,929 |

Total 1,659,536

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (31,783)

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and, therefore are not reported in the funds. 257,810

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

| | |
|-----------------------------|--------------|
| Deferred Outflows - Pension | 3,056,482 |
| Deferred Inflows - Pension | (2,105,460) |
| Net Pension Liability | (30,770,377) |

Total (29,819,355)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | |
|---|--------------|
| General Obligation Bonds | (10,015,000) |
| Accretion on capital appreciation bonds | (625,626) |
| Bond Premiums | (297,880) |
| Capital leases | (28,905) |
| Compensated absences | (1,622,632) |

Total liabilities (12,590,043)

Net Position of Governmental Activities \$13,520,454

See accompanying notes to the basic financial statements

Portsmouth City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

| | General Fund | Bond Retirement Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------|----------------------------|-----------------------------------|--------------------------------|
| <u>Revenues:</u> | | | | |
| Property Taxes | \$4,705,472 | \$862,421 | \$536,865 | \$6,104,758 |
| Intergovernmental | 21,943,720 | 121,838 | 4,054,625 | 26,120,183 |
| Investment Earnings | 32,863 | 0 | 55 | 32,918 |
| Tuition and Fees | 648,539 | 0 | 13,145 | 661,684 |
| Extracurricular Activities | 86,173 | 0 | 94,931 | 181,104 |
| Rentals | 21,527 | 0 | 0 | 21,527 |
| Charges for Services | 2,570 | 0 | 57,096 | 59,666 |
| Contributions and Donations | 11,506 | 0 | 9,155 | 20,661 |
| Miscellaneous | 68,724 | 0 | 895 | 69,619 |
| Total Revenues | 27,521,094 | 984,259 | 4,766,767 | 33,272,120 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,903,829 | 0 | 102,394 | 16,006,223 |
| Special | 3,524,629 | 0 | 1,916,771 | 5,441,400 |
| Vocational | 178,190 | 0 | 0 | 178,190 |
| Student Intervention Services | 48,513 | 0 | 6,666 | 55,179 |
| Support Services: | | | | |
| Pupils | 1,156,643 | 0 | 96,518 | 1,253,161 |
| Instructional Staff | 624,552 | 0 | 113,579 | 738,131 |
| Board of Education | 23,830 | 0 | 0 | 23,830 |
| Administration | 1,530,253 | 0 | 148,190 | 1,678,443 |
| Fiscal | 748,409 | 58,409 | 35,032 | 841,850 |
| Business | 87,456 | 0 | 0 | 87,456 |
| Operation and Maintenance of Plant | 2,317,219 | 0 | 169,860 | 2,487,079 |
| Pupil Transportation | 484,076 | 0 | 0 | 484,076 |
| Central | 72,402 | 0 | 0 | 72,402 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 560 | 0 | 1,174,360 | 1,174,920 |
| Other | 230 | 0 | 455,282 | 455,512 |
| Extracurricular Activities | 278,797 | 0 | 101,506 | 380,303 |
| Capital Outlay | 0 | 0 | 12,888 | 12,888 |
| Debt Service: | | | | |
| Principal Retirement | 47,273 | 699,457 | 83,754 | 830,484 |
| Interest and Fiscal Charges | 3,274 | 533,643 | 1,739 | 538,656 |
| Total Expenditures | 27,030,135 | 1,291,509 | 4,418,539 | 32,740,183 |
| Excess of Revenues Over (Under) Expenditures | 490,959 | (307,250) | 348,228 | 531,937 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers In | 556 | 0 | 0 | 556 |
| Transfers Out | 0 | 0 | (556) | (556) |
| Net Change in Fund Balances | 491,515 | (307,250) | 347,672 | 531,937 |
| Fund Balances (Deficit) at Beginning of Year | (556,288) | 2,058,699 | 1,558,400 | 3,060,811 |
| Fund Balances (Deficit) at End of Year | (\$64,773) | \$1,751,449 | \$1,906,072 | \$3,592,748 |

See accompanying notes to the basic financial statements:

Portsmouth City School District
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities*
For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$531,937

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|-------------|-------------|
| Capital asset additions | 120,634 | |
| Depreciation expense | (2,018,476) | |
| Excess of depreciation over capital outlay expense | | (1,897,842) |

Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each sale.

| | | |
|------------------------------------|--|---------|
| Loss on disposal of capital assets | | (8,012) |
|------------------------------------|--|---------|

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

| | | |
|---------------------------|----------|--------|
| Delinquent property taxes | (22,304) | |
| Intergovernmental | 63,030 | |
| Investment Earnings | (225) | |
| Total | | 40,501 |

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 1,757,260

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (1,488,274)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current fiscal year, these amounts consist of:

| | | |
|------------------------|---------|---------|
| Bond payments | 845,000 | |
| Capital lease payments | 131,027 | |
| Total | | 976,027 |

Amortization of bond premiums, deferred charges on the refunding of debt, accretion on bonds, as well as accrued interest payable on the bonds are not reported in the funds, but is allocated as an expense over the life of the debt in the Statement of Activities.

| | | |
|---|-----------|-----------|
| Accrued interest | 1,117 | |
| Amortization of bond premiums | 72,931 | |
| Amortization of deferred charges on refunding | (58,434) | |
| Accretion on bonds | (165,290) | |
| Total | | (149,676) |

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

| | | |
|--|--|---------|
| Decrease in compensated absences payable | | 176,967 |
|--|--|---------|

Change in Net Position of Governmental Activities (\$61,112)

Portsmouth City School District
*Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016*

| | <u>Budgeted Amounts</u> | | | Variance Positive (Negative) |
|---|-------------------------|--------------------|--------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$4,279,072 | \$4,670,890 | \$4,670,890 | \$0 |
| Intergovernmental | 21,855,718 | 21,950,663 | 21,950,693 | 30 |
| Investment Earnings | 18,274 | 26,109 | 26,109 | 0 |
| Tuition and Fees | 608,312 | 648,539 | 648,539 | 0 |
| Rentals | 21,840 | 21,527 | 21,527 | 0 |
| Charges for Services | 3,796 | 2,570 | 2,570 | 0 |
| Contributions and Donations | 20 | 525 | 525 | 0 |
| Miscellaneous | 8,528 | 21,166 | 21,166 | 0 |
| <i>Total Revenues</i> | <u>26,795,560</u> | <u>27,341,989</u> | <u>27,342,019</u> | <u>30</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,386,403 | 15,791,640 | 15,791,640 | 0 |
| Special | 3,687,534 | 3,589,705 | 3,589,705 | 0 |
| Vocational | 181,335 | 181,502 | 181,502 | 0 |
| Student Intervention Services | 135,390 | 67,541 | 67,541 | 0 |
| Support Services: | | | | |
| Pupils | 1,103,177 | 1,164,246 | 1,164,246 | 0 |
| Instructional Staff | 757,229 | 637,804 | 637,804 | 0 |
| Board of Education | 21,598 | 23,938 | 23,938 | 0 |
| Administration | 1,472,659 | 1,590,965 | 1,590,965 | 0 |
| Fiscal | 717,680 | 753,844 | 753,844 | 0 |
| Business | 45,493 | 49,452 | 49,452 | 0 |
| Operation and Maintenance of Plant | 2,401,703 | 2,316,313 | 2,316,313 | 0 |
| Pupil Transportation | 465,795 | 486,004 | 486,004 | 0 |
| Central | 106,310 | 86,801 | 86,801 | 0 |
| Operation of Non-Instructional Services: | | | | |
| Food Services Operations | 1,135 | 560 | 560 | 0 |
| Other | 935 | 659 | 659 | 0 |
| Extracurricular Activities | 201,486 | 246,475 | 246,475 | 0 |
| <i>Total Expenditures</i> | <u>26,685,862</u> | <u>26,987,449</u> | <u>26,987,449</u> | <u>0</u> |
| Excess of Revenues Over Expenditures | <u>109,698</u> | <u>354,540</u> | <u>354,570</u> | <u>30</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Proceeds from Sale of Capital Assets | 3,831 | 0 | 0 | 0 |
| Refund of Prior Year Expenditures | 66,610 | 33,959 | 33,959 | 0 |
| Transfers In | 0 | (100,000) | (100,000) | 0 |
| Refund of Prior Year Receipts | 0 | (20,657) | (20,657) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>70,441</u> | <u>(86,698)</u> | <u>(86,698)</u> | <u>0</u> |
| Net Change in Fund Balance | 180,139 | 267,842 | 267,872 | 30 |
| Fund Balance at Beginning of Year | 674,033 | 674,033 | 674,033 | 0 |
| Prior Year Encumbrances Appropriated | 175,643 | 175,643 | 175,643 | 0 |
| Fund Balance at End of Year | <u>\$1,029,815</u> | <u>\$1,117,518</u> | <u>\$1,117,548</u> | <u>\$30</u> |

See accompanying notes to the basic financial statements

Portsmouth City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

| | Private Purpose Trust Funds | Agency Funds |
|--|-----------------------------------|-----------------|
| <u>Assets:</u> | | |
| Equity in Pooled Cash and Cash Equivalents | \$297 | \$6,638 |
| <u>Liabilities:</u> | | |
| Undistributed Monies | 0 | \$6,638 |
| <u>Net Position:</u> | | |
| Held in Trust for Scholarships | \$297 | |

See accompanying notes to the basic financial statements

Portsmouth City School District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

| | Private Purpose Trust Fund |
|--|-------------------------------|
| | Scholarships |
| <u>Additions:</u> | |
| Gifts and Donations | \$875 |
| <u>Deductions:</u> | |
| Scholarships | 800 |
| <i>Change in Net Position</i> | 75 |
| <i>Net Position at Beginning of Year</i> | 222 |
| <i>Net Position at End of Year</i> | \$297 |

See accompanying notes to the basic financial statements

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Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 – Description of the School District and Reporting Entity

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

The School District serves an area of approximately 16 square miles. It is located in Scioto County and includes portions of Porter and Vernon Townships. It is staffed by 77 non-certificated employees, 161 certificated full-time personnel and 15 administrative employees who provide services to 1,934 students and other community members. The School District currently operates three instructional buildings and one administration building.

Reporting Entity

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

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

The following activities are included within the reporting entity:

Parochial Schools - Within the School District boundaries, Notre Dame Elementary and Notre Dame High School are operated as private schools. Portsmouth STEM Academy is now located within the school district boundaries. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a nonmajor special revenue fund for financial reporting purposes.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

South Central Ohio Computer Association Regional Council of Governments
Scioto County Career Technical Center
Coalition of Rural and Appalachian Schools

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Insurance Purchasing Pool:
Ohio SchoolComp Group Retrospective Rating Program

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type; however, the School District has no business-type activities.

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

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

Bond Retirement Debt Service Fund – The Bond Retirement Fund accounts for and reports property taxes restricted for the payment of general obligation bond principal and interest.

The nonmajor governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has three fiduciary funds: a private purpose trust fund, used to account for college scholarship programs for students; and two agency funds, one used for the Ohio High School Athletic Association tournament and the second is used to account for student managed activity programs.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the flow of economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows / outflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means that the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, “available” means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance, tuition and fees, charges for services, grants, and accrued interest.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Deferred Outflows/Inflows of Resources:

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding and pension reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, interest, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the governmental-wide statement of net position (See Note 10).

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

Cash and Cash Equivalents

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

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The School District is legally required to set money aside for bus purchases. Any unspent balance is presented on the balance sheet as “Restricted Assets: Cash and Cash Equivalents.”

During fiscal year 2016, the School District’s investments were limited to Federated Government Money Market, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Bonds, and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest credited to the General Fund during fiscal year 2016 amounted to \$32,863, which includes \$23,546 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

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. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set aside by the School District for bus purchases.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable/Payable”. Interfund balances are eliminated on the Statement of Net Position.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and purchased food held for resale.

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by back-trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and paintings, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Governmental Activities Estimated Lives |
|------------------------------------|---|
| Land Improvements | 5 - 10 years |
| Buildings and Improvements | 50 years |
| Furniture, Fixtures, and Equipment | 3 - 20 years |
| Vehicles | 8 years |
| Textbooks | 5 - 20 years |

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds. However, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Balance

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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 is imposed by law through constitutional provisions.

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Board of Education. In the general fund, assigned amounts represent intended uses established by the Board of Education or a School District official delegated that authority by resolution or by State Statute. State Statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. Assigned amounts in the General Fund also include amounts for employee benefits, and amounts to be assigned by principals for extracurricular activities.

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 fund balance.

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

Net Position

Net Position represents the difference between all other elements in the statement of net position. Net investment in capital assets consists of capital assets, net accumulated depreciation, reduced by the

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net Position restricted for other purposes include federal and State grants restricted to expenditures for specified purposes.

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

Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers and are eliminated from the Statement of Activities. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object level without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year-end in all funds.

The appropriations resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Bond Premiums and Compounded Interest on Capital Appreciation Bonds

For governmental activities, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Capital appreciation bonds are accreted each fiscal year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable.

On the governmental fund financial statements, bond premiums are recognized in the period in which the bonds were issued. Accretion on the capital appreciation bonds is not reported. Interest on the capital appreciation bonds is recorded as an expenditure when the debt becomes due.

Estimates

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

Note 3 – Accountability and Compliance

Accountability

At June 30, 2016, the following funds had a deficit fund balance:

| <u>Funds</u> | <u>Amounts</u> |
|-------------------------------------|----------------|
| General Fund | (\$64,773) |
| Special Revenue: | |
| District Managed Student Activities | 24,183 |
| Early Childhood Preschool | 34,545 |
| IDEA-B | 101,058 |
| Early Childhood Special Education | 14,092 |

The deficits in nonmajor special revenue funds were due to accruals in GAAP. The General Fund deficit balance exists because sufficient revenues have not been generated to cover expenditures along with accruals associated with GAAP reporting. The General Fund is liable for any deficit in the nonmajor special revenue funds and will provide transfers when cash is required not when accruals occur.

Note 4 – Budgetary Basis of Accounting

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).
4. Investments are recorded at fair value (GAAP basis) rather than cost (budget basis).
5. Budgetary revenues and expenditures of the Uniform School Supplies, Rotary, Public School Support, Print Shop, Faculty/Memorial Fund, and Severance Special Revenue Funds are classified to the General Fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

| Net Change in Fund Balance | |
|---|-----------|
| GAAP Basis | \$491,515 |
| Adjustments: | |
| Revenue Accruals | (31,763) |
| Expenditure Accruals | (59,871) |
| Encumbrances | (40,788) |
| Increase in Fair Value of Investments - 2016 | (9,418) |
| Increase in Fair Value of Investments - 2015 | 3,904 |
| Transfers | (100,556) |
| Excess of revenues over expenditures for the Uniform School Supplies Fund | (363) |
| Excess of revenues under expenditures for the Rotary Fund | 415 |
| Excess of revenues under expenditures for the Public School Support Fund | 4,059 |
| Excess of revenues over expenditures for the Print Shop Fund | (9,530) |
| Excess of revenues over expenditures for the Faculty/Memorial Fund | (276) |
| Change in Fund Balance for the Severance Fund | 20,544 |
| Budget Basis | \$267,872 |

Note 5 – Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

1. United States Treasury notes, bills, bonds, 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 obligations 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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. Investments may only be made through specified dealers and institutions.

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| Measurement/Investment | Measurement Amount | Maturity | | | S&P Rating | Percent of Total Investments |
|---|-----------------------|------------------|--------------------|------------------|---------------|------------------------------------|
| | | Less than 1 | 1 - 4 | 5+ | | |
| Fair Value: | | | | | | |
| Federated Government Money Market | \$2,338 | \$2,338 | \$0 | \$0 | AAAm | N/A |
| Federal Home Loan Bank Bonds | 715,797 | 0 | 715,797 | 0 | AA+ | 25.28% |
| Federal National Mortgage Association Bonds | 120,043 | 0 | 0 | 120,043 | AA+ | 4.24% |
| Federal Home Loan Mortgage Bonds | 455,061 | 0 | 455,061 | 0 | AA+ | 16.07% |
| Negotiable Certificates of Deposit | 1,538,510 | 439,419 | 846,346 | 252,745 | N/A | 54.33% |
| Totals | <u>\$2,831,749</u> | <u>\$441,757</u> | <u>\$2,017,204</u> | <u>\$372,788</u> | | |

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the School District, the School District will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk

The Standard and Poor's rating of the School District's investments is listed in the table above. The School District's investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or issued by United States Government sponsored enterprises.

Concentration of Credit Risk

The School District's investment policy places no limit on the amount it may invest in any one issuer. The percentage that each investment represents of the total investments is listed in the table above.

Custodial Credit Risk

The School District's balance of investments are held by the trust department of its banking institution in the School District's name. The School District has no policy on custodial credit risk and is governed by Ohio Revised Code as described under Deposits.

Note 6 – Property Taxes

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

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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 semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes that are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2016, was \$303,855 and is recognized as revenue: \$231,358 in the General Fund, \$45,280 in the Bond Retirement Debt Service Fund and \$27,217 in the Nonmajor Governmental Funds. The amount available as an advance at June 30, 2015, was \$258,781 and was recognized as revenue: \$196,776 in the General Fund, \$38,823 in the Bond Retirement Debt Service Fund and \$23,182 in the Nonmajor Governmental Funds.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources-unavailable revenue.

The assessed values upon which fiscal year 2016 taxes were collected are:

| | 2015 Second- Half Collections | | 2016 First- Half Collections | |
|---|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Real Estate | \$217,275,280 | 92.73% | \$218,412,400 | 90.08% |
| Public Utility Personal | 17,035,110 | 7.27% | 24,062,660 | 9.92% |
| Total Assessed Value | <u>\$234,310,390</u> | <u>100.00%</u> | <u>\$242,475,060</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$23.90 | | \$26.45 | |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 7 – Receivables

Receivables at June 30, 2016, consisted of property taxes, accounts, intergovernmental grants, accrued interest, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|--------------------------------------|-------------------------|
| <u>Governmental Activities:</u> | |
| Early Childhood Preschool | \$57,241 |
| IDEA-B | 93,685 |
| Title I | 420,647 |
| Early Childhood Special Education | 5,352 |
| Title II-A | 64,271 |
| Title VI-B, Rural and Low-Income | 27,823 |
| Reimbursement from other governments | 26,032 |
| Total Intergovernmental Receivable | <u><u>\$695,051</u></u> |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 8 – Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, was as follows:

| | Balance at 6/30/15 | Additions | Deductions | Balance at 6/30/16 |
|---|----------------------------|-----------------------------|-------------------------|----------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$7,537,849 | \$0 | \$0 | \$7,537,849 |
| Paintings | 53,043 | 0 | 0 | 53,043 |
| Total Capital Assets Not Being Depreciated | <u>7,590,892</u> | <u>0</u> | <u>0</u> | <u>7,590,892</u> |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | 5,230,776 | 51,345 | 0 | 5,282,121 |
| Buildings and Improvements | 52,261,594 | 0 | 0 | 52,261,594 |
| Furniture, Fixtures, and Equipment | 3,464,465 | 69,289 | (42,424) | 3,491,330 |
| Vehicles | 764,402 | 0 | 0 | 764,402 |
| Textbooks | 3,068,412 | 0 | 0 | 3,068,412 |
| Total Capital Assets Being Depreciated | <u>64,789,649</u> | <u>120,634</u> | <u>(42,424)</u> | <u>64,867,859</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (2,026,935) | (268,996) | 0 | (2,295,931) |
| Buildings and Improvements | (12,104,332) | (1,395,545) | 0 | (13,499,877) |
| Furniture, Fixtures, and Equipment | (2,549,137) | (249,671) | 34,412 | (2,764,396) |
| Vehicles | (734,799) | (10,036) | 0 | (744,835) |
| Textbooks | (2,607,943) | (94,228) | 0 | (2,702,171) |
| Total Accumulated Depreciation | <u>(20,023,146)</u> | <u>(2,018,476) *</u> | <u>34,412</u> | <u>(22,007,210)</u> |
| Total Capital Assets Being Depreciated, Net | <u>44,766,503</u> | <u>(1,897,842)</u> | <u>(8,012)</u> | <u>42,860,649</u> |
| Governmental Activities Capital Assets, Net | <u><u>\$52,357,395</u></u> | <u><u>(\$1,897,842)</u></u> | <u><u>(\$8,012)</u></u> | <u><u>\$50,451,541</u></u> |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

*Depreciation expense was charged to governmental functions as follows:

| | |
|--|-------------|
| Instruction: | |
| Regular | \$775,565 |
| Special | 410,121 |
| Vocational | 23,771 |
| Student Intervention Services | 21,585 |
| Support Services: | |
| Pupils | 76,285 |
| Instructional Staff | 55,439 |
| Administration | 225,069 |
| Fiscal | 28,780 |
| Business | 7,945 |
| Operation and Maintenance of Plant | 140,156 |
| Pupil Transportation | 43,513 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 134,901 |
| Other | 22,945 |
| Extracurricular Activities | 52,401 |
| Total Depreciation Expense | \$2,018,476 |

Note 9 – Risk Management

Property and Liability

Coverage provided by the Hunter-Williams Insurance Agency is as follows:

| | |
|---|-------------------|
| Building and Contents (including Boiler and Machinery and Inland Marine) - replacement cost (\$1,000 deductible) | \$74,562,255 |
| Auto Liability: | |
| Liability - Any Auto | 1,000,000 |
| Medical Payments | 5,000 |
| Uninsured/Underinsured Motorists Coverage | 1,000,000 |
| Comprehensive - All (\$500 deductible) | Actual Cash Value |
| Collision - All (\$500 deductible) | Actual Cash Value |
| Hired Car Physical Damage | 75,000 |
| Comprehensive | Actual Cash Value |
| Collision | Actual Cash Value |

(continued)

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

(continued)

| | |
|--|-------------|
| General Liability: | |
| Each Occurrence Limit | \$1,000,000 |
| Damage to Premises Rented - Limit | 300,000 |
| Medical Expense Limit (any one person) | 15,000 |
| Personal and Advertising Injury - Each Offense Limit | 1,000,000 |
| General Aggregate Limit | 2,000,000 |
| Products - Completed Operations Aggregate Limit | 2,000,000 |
| Computer Fraud | 100,000 |
| Excess Liability: | |
| Liability Limit - Each Accident | 4,000,000 |
| Liability Policy Aggregate | 4,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were increases in insurance coverage in buildings and contents, liability limit for each accident, and liability policy aggregate. There were no significant reductions in coverage from the prior fiscal year.

Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool (See Note 16). The intent of the GRRP is to reward participants that are able to keep their claims costs below a predetermined amount. As part of the GRRP, school districts join together as a group. Each school district continues to pay its own individual premium to the State. However, each school district has the opportunity to receive retrospective premium adjustments (refunds or assessments) at 12, 24, and 36 months after the end of the policy year. At the end of each policy year, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses (indemnity, medical, and reserves) for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by BWC. Each group limits the maximum assessment by selecting a premium cap between five percent and 100 percent of merit rated premium. Participation in the GRRP is limited to school districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRRP.

Note 10 – Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The net pension liability represents the School 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 School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School 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.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School 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.

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.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 School 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$378,036 for fiscal year 2016. Of this amount \$954 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Members are eligible to retire at age 60 with five years 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 years of service on August 1, 2026.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 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 bearing the risk of investment gain or loss on the account. STRS 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. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,379,224 for fiscal year 2016. Of this amount \$232,060 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|---------------------|--------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.09338500% | 0.09214759% | |
| Proportion of the Net Pension Liability Current Measurement Date | <u>0.09464540%</u> | <u>0.09179633%</u> | |
| Change in Proportionate Share | <u>0.00126040%</u> | <u>-0.00035126%</u> | |
| Proportionate Share of the Net Pension Liability | \$5,400,557 | \$25,369,820 | \$30,770,377 |
| Pension Expense | \$360,119 | \$1,128,155 | \$1,488,274 |

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$86,959 | \$1,156,544 | \$1,243,503 |
| Changes in proportionate Share and difference between School District contributions and proportionate share of contributions School District contributions subsequent to the measurement date | 55,719 | 0 | 55,719 |
| | <u>378,036</u> | <u>1,379,224</u> | <u>1,757,260</u> |
| Total Deferred Outflows of Resources | <u>\$520,714</u> | <u>\$2,535,768</u> | <u>\$3,056,482</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$178,938 | \$1,824,570 | \$2,003,508 |
| Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions | 0 | 101,952 | 101,952 |
| Total Deferred Inflows of Resources | <u>\$178,938</u> | <u>\$1,926,522</u> | <u>\$2,105,460</u> |

\$1,757,260 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------|--------------------|--------------------|
| Fiscal Year Ending June 30: | | | |
| 2017 | (\$47,180) | (\$437,233) | (\$484,413) |
| 2018 | (47,180) | (437,233) | (484,413) |
| 2019 | (47,592) | (437,233) | (484,825) |
| 2020 | <u>105,692</u> | <u>541,721</u> | <u>647,413</u> |
| Total | <u>(\$36,260)</u> | <u>(\$769,978)</u> | <u>(\$806,238)</u> |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 2015, 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.

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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| 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 School 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%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$7,488,634 | \$5,400,557 | \$3,642,227 |

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, 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. |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>10 Year Expected Nominal Rate of Return *</u> |
|----------------------|------------------------------|--|
| 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 % | |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. 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, 2015.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School 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 School 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:

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$35,240,595 | \$25,369,820 | \$17,022,610 |

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2016, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$47,380.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$72,365, and \$49,816, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System of Ohio

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary 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 Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$94,430, respectively. The full amount has been contributed for 2016, 2015 and 2014.

Note 12 – Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn 10 to 25 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers earn sick leave at the rate of one and one-half days per month from August to May. Administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 270 days for teachers and 224 days for classified employees. Administrators can accumulate a maximum of the number of contract days plus 15. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 57 days for teachers and 56 days for classified employees. Administrators are paid for one-fourth of accrued, but unused sick leave with a maximum of 57.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Insurance

The School District provides medical insurance to all employees through Anthem. Certified employees are provided with life, dental and vision insurance through Guardian. Classified employees are provided with life, dental, and vision insurance through the Health Care Plan of AFSCME Local 2684. All certified and classified employees are provided prescription drug coverage through the Health Care Plan of AFSCME Local 2684. Certified employees pay 13 percent of healthcare premiums. Classified employees pay six and a half percent of healthcare premiums.

Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Note 13 – Leases – Lessee Disclosure

During a prior fiscal year, the School District entered into a new capitalized lease for computers and copiers. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The computers and copiers acquired by lease were capitalized in the amount of \$242,000 and \$179,424, respectively which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Position for governmental activities. Principal payments in fiscal year 2016 totaled \$131,027 and were paid from the General Fund and the Permanent Improvement Fund.

The assets acquired through the capital lease as of June 30, 2016, are as follows:

| | <u>Asset Value</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|------------------------------------|------------------------|-------------------------------------|---------------------------|
| Asset: | | | |
| Furniture, Fixtures, and Equipment | <u>\$421,424</u> | <u>(\$398,996)</u> | <u>\$22,428</u> |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 2016:

| Fiscal Year Ending June 30, | Total Payments |
|---|-------------------|
| 2017 | \$29,485 |
| Less: Amount Representing Interest | (580) |
| Present Value of Net Minimum Lease Payments | \$28,905 |

In prior fiscal years, the School District entered into noncancelable operating leases for the use of a stadium and postage machines. Operating lease payments are reported as function expenditures in governmental funds and on budgetary statements. Total operating lease payments in fiscal year 2016 totaled \$16,204 in the General Fund.

The following is a schedule of the future minimum operating lease payments:

| Fiscal Year Ending June 30, | Total Payments |
|-----------------------------|-------------------|
| 2017 | \$16,204 |
| 2018 | 11,551 |
| 2019 | 10,000 |
| 2020 | 10,000 |
| 2021 | 10,000 |
| 2022-2026 | 50,000 |
| 2027-2031 | 50,000 |
| 2032-2036 | 50,000 |
| 2037-2038 | 17,500 |
| Total | \$225,255 |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 14 – Long-Term Obligations

The changes in the School District’s long-term obligations during fiscal year 2016 were as follows:

| | Principal Outstanding 6/30/15 | Additions | Deductions | Principal Outstanding 6/30/16 | Due Wthin One Year |
|---------------------------------|-------------------------------------|--------------------|--------------------|-------------------------------------|-----------------------|
| <u>Governmental Activities:</u> | | | | | |
| General Obligation Bonds: | | | | | |
| 2007 School Improvement | | | | | |
| Refunding Bonds: | | | | | |
| Serial Bonds 3.6 to 4.0% | \$9,045,000 | \$0 | \$0 | \$9,045,000 | \$0 |
| Term Bonds 3.73% | 170,000 | 0 | 85,000 | 85,000 | 85,000 |
| Capital Appreciation | | | | | |
| Bonds 24.46% | 75,000 | 0 | 0 | 75,000 | 0 |
| Accretion on Capital | | | | | |
| Appreciation Bonds | 482,762 | 142,864 | 0 | 625,626 | 0 |
| Premium on Debt Issue | 323,137 | 0 | 34,792 | 288,345 | 0 |
| 2012 Various Purpose School | | | | | |
| Improvement Refunding Bonds: | | | | | |
| Serial Bonds 1.5 to 2.0% | 1,310,000 | 0 | 500,000 | 810,000 | 810,000 |
| Capital Appreciation | | | | | |
| Bonds 20.65% | 114,457 | 0 | 114,457 | 0 | 0 |
| Accretion on Capital | | | | | |
| Appreciation Bonds | 123,117 | 22,426 | 145,543 | 0 | 0 |
| Premium on Debt Issue | 47,674 | 0 | 38,139 | 9,535 | 0 |
| Total General Obligation Bonds | <u>11,691,147</u> | <u>165,290</u> | <u>917,931</u> | <u>10,938,506</u> | <u>895,000</u> |
| Net Pension Liability: | | | | | |
| STRS | 22,413,482 | 2,956,338 | 0 | 25,369,820 | 0 |
| SERS | 4,726,161 | 674,396 | 0 | 5,400,557 | 0 |
| Total Net Pension Liability | <u>27,139,643</u> | <u>3,630,734</u> | <u>0</u> | <u>30,770,377</u> | <u>0</u> |
| Capital Leases | 159,932 | 0 | 131,027 | 28,905 | 28,905 |
| Compensated Absences | 1,799,599 | 253,445 | 430,412 | 1,622,632 | 268,826 |
| Total Governmental Activities | | | | | |
| Long-Term Obligations | <u>\$40,790,321</u> | <u>\$4,049,469</u> | <u>\$1,479,370</u> | <u>\$43,360,420</u> | <u>\$1,192,731</u> |

2007 School Improvement Refunding Bonds - On October 11, 2006, the School District issued \$9,800,000 in general obligation bonds for the purpose of advance refunding a portion of the 2002 Classroom Facilities General Obligation Serial Bonds.

The serial bonds of the 2007 School Improvement General Obligation Refunding Bonds, issued at \$9,400,000 with maturity dates of December 1, 2007, to December 1, 2012, and December 1, 2018, to December 1, 2024, are subject to optional redemption, in whole or in part on any date in any order of maturity and by lot within a maturity at the option of the issuer on or after December 1, 2016, at the redemption price of 100 percent.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The above amounts of refunded bonds have been defeased and are not reported in the accompanying basic financial statements.

The capital appreciation bonds of the 2007 School Improvement General Obligation Refunding Bonds, issued at \$75,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2018 in the amount of \$980,000. Accretion on the capital appreciation bonds for fiscal year 2016 was \$142,864.

The term bonds of the 2007 School Improvement General Obligation Refunding Bonds, issued at \$325,000. The fiscal year end the ending balance was \$85,000.

2012 Various Purpose School Improvement Refunding Bonds - On September 14, 2011, the School District issued \$2,864,457 in general obligation bonds for the purpose of advance refunding a portion of the 2002 Classroom Facilities General Obligation Serial Bonds.

The serial bonds of the 2012 Various Purpose School Improvement General Obligation Refunding Bonds, issued at \$2,750,000 with maturity dates of December 1, 2012, to December 1, 2016, are not subject to redemption prior to maturity.

The capital appreciation bonds of the 2012 Various Purpose School Improvement General Obligation Refunding Bonds, issued at \$114,457, are not subject to redemption prior to maturity. The capital appreciation bonds will mature in fiscal year 2016 in the amount of \$260,000. Accretion on the capital appreciation bonds for fiscal year 2016 was \$22,426.

The bonds will be retired from the Bond Retirement Debt Service Fund.

Compensated absences will be paid from the General Fund. The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to net pension liability see note 10.

The School District's overall legal debt margin was \$13,559,204 with an unvoted debt margin of \$242,475 at June 30, 2016.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, are as follows:

| Fiscal Year Ending June 30, | Serial/Term Bonds Principal | Serial/Term Bonds Interest | Capital Appreciation Principal | Capital Appreciation Interest | Total |
|--------------------------------|--------------------------------|-------------------------------|--------------------------------------|-------------------------------------|---------------------|
| 2017 | \$895,000 | \$371,600 | \$0 | \$0 | \$1,266,600 |
| 2018 | 0 | 361,800 | 75,000 | 905,000 | 1,341,800 |
| 2019 | 1,040,000 | 341,000 | 0 | 0 | 1,381,000 |
| 2020 | 1,130,000 | 297,600 | 0 | 0 | 1,427,600 |
| 2021 | 1,235,000 | 250,300 | 0 | 0 | 1,485,300 |
| 2022-2025 | 5,640,000 | 462,200 | 0 | 0 | 6,102,200 |
| Total | <u>\$9,940,000</u> | <u>\$2,084,500</u> | <u>\$75,000</u> | <u>\$905,000</u> | <u>\$13,004,500</u> |

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 – Interfund Activity

As of June 30, 2016, interfund receivables and payables that resulted from various interfund transactions were as follows:

| | | Receivable |
|----------------|--------------------|-------------------|
| | | General Fund |
| Payable | Nonmajor | |
| | Governmental Funds | \$158,337 |

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

Transfers made during the fiscal year ended June 30, 2016, were as follows:

| | | Transfers From |
|------------------|--------------------|-----------------------|
| | | General Fund |
| Transfers | To Nonmajor | |
| | Governmental Funds | \$556 |

Transfers from nonmajor governmental funds to the General Fund were due to the elimination of a fund.

Note 16 – Jointly Governed Organizations and Insurance Purchasing Pool

Jointly Governed Organizations

South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG)

The School District is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence 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 school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

During fiscal year 2016, SCOCARCoG entered into a merger agreement with Metropolitan Educational Technology Association (“META”). Pursuant to an addendum to the agreement, certain liabilities will remain the sole responsibility of SCOCARCoG, and once these remaining liabilities are satisfied, SCOCARCoG will be dissolved and the member districts will become members of META. SCOCARCoG entered into a subcontract agreement with META to provide services to SCOCARCoG, and on behalf of SCOCARCoG, to the member districts. Consistent with the merger agreement and updated bylaws, SCOCARCoG is currently governed by a four person executive governing board. The School District paid SCOCARCoG \$135,357 for services provided during the fiscal year.

Scioto County Career Technical Center

The Scioto County Career Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education, consisting of two representatives from the Portsmouth City School District and three representatives from the South Central Ohio Educational Service Center, which possesses its own budgeting and taxing authority. The Board exercises total control over the operations of the Technical Center including budgeting, appropriating, contracting and designating management. Each School District’s degree of control is limited to its representation on the Board. To obtain financial information write to the Scioto County Career Technical Center at P.O. Box 766, Lucasville, Ohio 45648.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a board which is composed of 14 members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for school district administrative personnel; gathers data regarding education conditions in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Board exercises total control over the operations of the coalition including budgeting, appropriating, contracting and designating management. Each School District’s degree of control is limited to its representation on the Board. The School District’s membership fee was \$650 for fiscal year 2016.

Insurance Purchasing Pool

Ohio SchoolComp Group Retrospective Rating Program

The School District participates in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The GRRP’s business and affairs are conducted by a five member Board of Directors. Each fiscal year, the participants pay an enrollment fee to CompManagement, Inc. to cover the costs of administering the program.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 17 – Set-Aside Calculations

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

| | Capital Acquisitions |
|---|-------------------------|
| Set-aside Balance as of June 30, 2015 | \$0 |
| Current Fiscal Year Set-aside Requirement | 317,926 |
| Current Fiscal Year Offsets | (687,826) |
| Qualifying Disbursements | (176,978) |
| Set-aside Balance as of June 30, 2016 | (\$546,878) |
| Required Set-aside Balances Carried Forward | \$0 |

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital acquisitions set-aside amount below zero. The extra amount for capital acquisitions may not be used to reduce the set-aside requirement of future fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

Note 18 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

| | |
|-----------------------------|-----------|
| General Fund | \$40,788 |
| Nonmajor Governmental Funds | 78,200 |
| Total | \$118,988 |

Note 19 – Fund Balances

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

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| Fund Balances | General Fund | Bond Retirement Fund | Nonmajor Governmental Funds | Total |
|---|-------------------|----------------------------|-----------------------------------|--------------------|
| <i>Nonspendable</i> | | | | |
| Prepays | \$11,452 | \$0 | \$3,149 | \$14,601 |
| Inventory | 12,928 | 0 | 7,564 | 20,492 |
| <i>Total Nonspendable</i> | 24,380 | 0 | 10,713 | 35,093 |
| <i>Restricted for</i> | | | | |
| Bus Purchases | 37,464 | 0 | 0 | 37,464 |
| Capital Acquisitions | 0 | 0 | 554,272 | 554,272 |
| Debt Payment | 0 | 1,751,449 | 0 | 1,751,449 |
| Food Service Operations | 0 | 0 | 143,390 | 143,390 |
| Special Donations | 0 | 0 | 25,837 | 25,837 |
| Facilities Maintenance | 0 | 0 | 1,145,467 | 1,145,467 |
| Auxillary Service Non Public | 0 | 0 | 59,440 | 59,440 |
| SchoolNet Praise | 0 | 0 | 7,427 | 7,427 |
| CTAE Career Tech | 0 | 0 | 714 | 714 |
| Miscellaneous State Grants | 0 | 0 | 87,690 | 87,690 |
| <i>Total Restricted</i> | 37,464 | 1,751,449 | 2,024,237 | 3,813,150 |
| <i>Committed to</i> | | | | |
| Future Severance Payments | 397,681 | 0 | 0 | 397,681 |
| Special Donations | 0 | 0 | 43,955 | 43,955 |
| <i>Total Committed</i> | 397,681 | 0 | 43,955 | 441,636 |
| <i>Assigned to</i> | | | | |
| Purchases on Order | 57,275 | 0 | 0 | 57,275 |
| Public School Support | 33,902 | 0 | 0 | 33,902 |
| Staff Development | 0 | 0 | 1,440 | 1,440 |
| <i>Total Assigned</i> | 91,177 | 0 | 1,440 | 92,617 |
| <i>Unassigned (Deficit)</i> | (615,475) | 0 | (174,273) | (789,748) |
| <i>Total Fund Balances (Deficit)</i> | (\$64,773) | \$1,751,449 | \$1,906,072 | \$3,592,748 |

Note 20 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the affect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

Portsmouth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, 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 School District, which can extend 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, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

Litigation

The School District is not a party to any legal proceedings as of June 30, 2016.

Note 21- Change in Accounting Principle

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application" and GASB Statement No 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

Note 22- Subsequent Events

On April 21, 2016, the Board approved the issuance of Various Purpose School Improvement Refunding Bonds in the amount of \$9,045,000 to be dated September 6, 2016.

Portsmouth City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.09464540% | 0.09338500% | 0.09338500% |
| School District's Proportionate Share of the Net Pension Liability | \$5,400,557 | \$4,726,162 | \$5,553,306 |
| School District's Covered-Employee Payroll | \$2,855,136 | \$2,671,664 | \$2,573,351 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 189.15% | 176.90% | 215.80% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

Note: Amounts presented as of the School District's measurement date which is the prior fiscal year end.

(1) Information prior to 2014 is not available.

Portsmouth City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

| | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.09179633% | 0.09214759% | 0.09214759% |
| School District's Proportionate Share of the Net Pension Liability | \$25,369,820 | \$22,413,482 | \$26,698,794 |
| School District's Covered-Employee Payroll | \$9,518,857 | \$9,421,000 | \$10,217,431 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 266.52% | 237.91% | 261.31% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |

Note: Amounts presented as of the School District's measurement date which is the prior fiscal year end.

(1) Information prior to 2014 is not available.

Portsmouth City School District
Required Supplementary Information
Schedule of School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$378,036 | \$376,307 | \$370,293 | \$356,152 | \$369,610 | \$338,528 | \$401,594 | \$254,936 | \$235,943 | \$242,946 |
| Contributions in Relation to the Contractually Required Contribution | (378,036) | (376,307) | (370,293) | (356,152) | (369,610) | (338,528) | (401,594) | (254,936) | (235,943) | (242,946) |
| Contribution Deficiency (Excess) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| School District Covered-Employee Payroll | \$2,700,257 | \$2,855,136 | \$2,671,664 | \$2,573,351 | \$2,748,031 | \$2,693,141 | \$2,965,986 | \$2,590,814 | \$2,402,675 | \$2,274,775 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% | 10.68% |

Portsmouth City School District
Required Supplementary Information
Schedule of School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contribution | \$1,379,224 | \$1,332,640 | \$1,224,730 | \$1,328,266 | \$1,224,760 | \$1,316,529 | \$1,323,659 | \$1,280,381 | \$1,296,509 | \$1,219,710 |
| Contributions in Relation to the Contractually Required Contribution | <u>(1,379,224)</u> | <u>(1,332,640)</u> | <u>(1,224,730)</u> | <u>(1,328,266)</u> | <u>(1,224,760)</u> | <u>(1,316,529)</u> | <u>(1,323,659)</u> | <u>(1,280,381)</u> | <u>(1,296,509)</u> | <u>(1,219,710)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$9,851,600 | \$9,518,857 | \$9,421,000 | \$10,217,431 | \$9,421,231 | \$10,127,146 | \$10,181,992 | \$9,849,085 | \$9,973,146 | \$9,382,385 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

**PORTSMOUTH CITY SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Federal CFDA Number | Pass Through Grant Year | Passed Through to Subrecipients | Total Federal Expenditures |
|---|------------------------------------|--|--|---------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Child Nutrition Cluster: | | | | |
| Non-Cash Assistance (Food Distribution): | | | | |
| National School Lunch Program | 10.555 | 2015-2016 | \$ 0 | \$ 46,951 |
| Cash Assistance: | | | | |
| School Breakfast Program | 10.553 | 2015-2016 | 0 | 250,715 |
| National School Lunch Program | 10.555 | 2015-2016 | 0 | 788,184 |
| Total Child Nutrition Cluster | | | <u>0</u> | <u>1,085,850</u> |
| Fresh Fruit and Vegetable Program | 10.582 | 2015-2016 | <u>0</u> | <u>75,563</u> |
| Total U.S. Department of Agriculture | | | <u>0</u> | <u>1,161,413</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Direct from Federal Government</i> | | | | |
| Impact Aid | 84.041 | 2015 | 0 | 1,275 |
| | | 2016 | 0 | 14,766 |
| Total Impact Aid | | | <u>0</u> | <u>16,041</u> |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 2015 | 0 | 161,400 |
| | | 2016 | 0 | 1,187,929 |
| Total Title I Grants to Local Educational Agencies | | | <u>0</u> | <u>1,349,329</u> |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 84.027 | 2015 | 0 | 27,288 |
| | | 2016 | 0 | 495,544 |
| Special Education Preschool Grants | 84.173 | 2016 | 0 | 14,733 |
| Total Special Education Cluster | | | <u>0</u> | <u>537,565</u> |
| Education for Homeless Children and Youth | 84.196 | 2015 | 0 | 5,955 |
| | | 2016 | 0 | 12,623 |
| Total Education for Homeless Children and Youth | | | <u>0</u> | <u>18,578</u> |
| Rural Education | 84.358 | 2015 | 0 | 23,255 |
| | | 2016 | 0 | 23,945 |
| Total Rural Education | | | <u>0</u> | <u>47,200</u> |
| Supporting Effective Instruction State Grant | 84.367 | 2015 | 0 | 41,516 |
| | | 2016 | 0 | 149,476 |
| Total Supporting Effective Instruction State Grant | | | <u>0</u> | <u>190,992</u> |
| Total U.S. Department of Education | | | <u>0</u> | <u>2,159,705</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 0</u> | <u>\$ 3,321,118</u> |

The accompanying notes are an integral part of this schedule.

**PORTSMOUTH CITY SCHOOL DISTRICT
SCIOTO COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Portsmouth City School District (the School District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the entitlement value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Portsmouth City School District
Scioto County
724 Findlay Street
Portsmouth, Ohio 45662

To the Board of Education:

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 Portsmouth City School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 21, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School 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 School 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 misstatement of the School 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.

Compliance and Other Matters

As part of reasonably assuring whether the School 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of the 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 School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Portsmouth City School District
Scioto County
724 Findlay Street
Portsmouth, Ohio 45662

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Portsmouth City School District's, Scioto County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Portsmouth City School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal program.

Management's Responsibility

The School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 School 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 School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, the Portsmouth 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, 2016.

Report on Internal Control Over Compliance

The School 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 School 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 each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2017

**PORTSMOUTH CITY SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material weaknesses in internal control reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under 2 CFR § 200.516(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Title I Grants to Local Educational Agencies: CFDA #84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee under 2 CFR §200.520? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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Dave Yost • Auditor of State

PORTSMOUTH CITY SCHOOL DISTRICT

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2017**