



Rea & associates *a brighter way*

Kent City School District Portage County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Kent City School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 10, 2017

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KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
For the Fiscal Year Ended June 30, 2016
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PORTAGE COUNTY, OHIO
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December 20, 2016

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, (the "School District") as of and for the year ended June 30, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with 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 that the Management's Discussion and Analysis, Schedule of the School District's Proportionate Share of the Net Pension Liability, and Schedule of the School District Contributions on pages 5-13, 62, and 63, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of expenditures of federal awards, as required *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

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Kent City School District

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

The discussion and analysis of Kent City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 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 the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- General revenues accounted for \$48,842,709 in revenue or 85.4% of all revenues. Program revenues in the form of charges for services, operating grants, contributions and interest accounted for \$8,361,393 or 14.6% of total revenues of \$57,204,102.
- The School District had \$44,597,400 in expenses related to governmental activities; only \$8,361,393 of these expenses was offset by program specific revenues. General revenues (primarily property taxes and school foundation) of \$48,842,709 helped provide for these programs.
- At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of \$25,856,062, an increase of \$7,198,787 from 2015.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by most private-sector companies.

Kent City School District

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

This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in this position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's current property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. In the *Statement of Net Position* and the *Statement of Activities*, the School Districts' activities are considered to be all Governmental Activities:

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 11. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. Fund financial statements provide detailed information about the general fund, the School district's only major fund. Data from the other nonmajor funds are combined into a single, aggregated presentation.

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

The School District as a Whole

Recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Over time, net position can serve as a useful indicator of a government's financial position. During fiscal year 2016, the School District had an increase in net position of \$12,606,702. The increase in current assets of \$5,239,483 is largely attributable to a significant increase in cash and cash equivalents.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net position for fiscal year 2016. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Kent City School District

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

A portion of the School District's net position, \$2,171,553, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted positions, \$1,609,757 is restricted for debt service payments; \$3,396 is restricted for scholarships and \$558,400 is restricted for other purposes. The remaining significant balance of government-wide unrestricted net position happens to be a deficit of \$(52,028,253). Table 1 provides a summary of the School District's net position for 2016 compared to 2015:

Table 1
 Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 59,787,366	\$ 54,547,883
Capital assets, net of depreciation	<u>24,721,501</u>	<u>24,655,748</u>
Total assets	<u>84,508,867</u>	<u>79,203,631</u>
Deferred outflows of resources		
Pension	<u>6,660,817</u>	<u>4,366,952</u>
Liabilities		
Current and other liabilities	4,711,479	5,675,599
Long-term liabilities:		
Due within one year	2,490,811	2,690,254
Due in more than one year:		
Net pension liability	69,341,095	65,645,551
Other amounts	<u>18,386,905</u>	<u>20,748,675</u>
Total liabilities	<u>94,930,290</u>	<u>94,760,079</u>
Deferred inflows of resources		
Property taxes	22,232,069	23,913,432
Payments in lieu of taxes	236,380	-
Pension	<u>8,178,276</u>	<u>11,911,105</u>
Total deferred inflows of resources	<u>30,646,725</u>	<u>35,824,537</u>
Net Position		
Net investment in capital assets	15,449,369	13,827,033
Restricted	2,171,553	2,045,992
Unrestricted	<u>(52,028,253)</u>	<u>(62,887,058)</u>
Total net position	<u>\$ (34,407,331)</u>	<u>\$ (47,014,033)</u>

Kent City School District

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

The School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position. The net pension liability is the largest single liability reported by the School District at June 30, 2016.

The School District's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

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

Table 2
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 4,712,261	\$ 4,817,242
Operating grants, contributions and interest	3,649,132	3,888,733
General revenues:		
Property taxes	30,935,371	25,465,468
Grants and entitlements	17,508,636	17,464,638
Investment earnings	76,951	31,978
Miscellaneous	<u>321,751</u>	<u>313,837</u>
Total revenues	<u>57,204,102</u>	<u>51,981,896</u>

Continued

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

Table 2 (Continued)
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Program Expenses		
Instruction:		
Regular	\$ 17,485,054	\$ 17,881,520
Special	6,525,732	6,226,499
Vocational	2,095,793	1,857,715
Adult/continuing	40,268	30,161
Student intervention services	641,418	716,388
Other	549,968	521,704
Support services:		
Pupils	2,669,182	2,611,053
Instructional staff	1,386,278	1,218,895
Board of education	108,123	160,169
Administration	3,101,509	3,182,947
Fiscal	1,138,493	1,057,761
Business	239,854	250,062
Operation and maintenance of plant	3,602,706	3,698,453
Pupil transportation	1,656,321	1,812,186
Central	106,196	142,314
Operation of non-instructional services:		
Food service operations	1,203,165	1,272,004
Community services	412,024	415,316
Shared services	109,039	108,493
Extracurricular activities	1,176,817	1,169,228
Interest and fiscal charges	349,460	495,959
Total expenses	<u>44,597,400</u>	<u>44,828,827</u>
Change in net position	<u>\$ 12,606,702</u>	<u>\$ 7,153,069</u>

Governmental Activities

Several revenue sources fund governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$30.9 million in 2016, representing an increase of \$5,469,903 from 2015. The increase in property tax is due partially to varying amounts available as an advance each year that is recognized as revenue. The amount available as an advance for 2016 was \$2,056,393 greater than the amount for 2015. General revenues from grants and entitlements, such as the school foundation program, generated over \$17.5 million, which is a \$43,998 increase from the prior year.

With the combination of taxes and intergovernmental funding comprising approximately 84.7% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Kent City School District

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

A review of Table 2 shows that the total cost of instructional services was \$27,338,233, or 61.3% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$4,055,460, or 9.1% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$4,587,979, or 10.3% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of the School District's buildings, grounds and equipment. Current year expenses of \$3,602,706 made up 8.1% of all governmental expenses.

Pupil transportation is related primarily to the activities at the School District's Transportation Center. This amount mainly includes salaries and wages, maintenance, fuel costs and depreciation of related vehicles, equipment and buildings. For 2016, this expense is \$1,656,321 or 3.7% of all governmental expenses.

A significant component of unrestricted net position is the general obligation debt outstanding that was issued on behalf of the Kent Free Library. The carrying value of this debt is \$9,230,901, which includes the principal, accretion and premium associated with this debt.

The dependence upon tax revenues for governmental activities is apparent with only 18.8% of governmental expenses supported by program revenues.

In the prior fiscal year, the School District implemented the new accounting standard for pension. As a result of implementing the new accounting standard, the School District is reporting a significant net pension liability and related deferred inflows of resources which have a negative effect on net position. In addition, the School District is reporting deferred outflows of resources and a reduction of expenses related to pension for this fiscal year, which have a positive impact on net position. This expense amount is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the School District's net position, additional information is presented below.

	<u>2016</u>	<u>2015</u>
Net position	\$ (34,407,331)	\$ (47,014,033)
Deferred outflows - pension	(6,660,817)	(4,366,952)
Deferred inflows - pension	8,178,276	11,911,105
Net pension liability	<u>69,341,095</u>	<u>65,645,551</u>
Net position without new standard	<u>\$ 36,451,223</u>	<u>\$ 26,175,671</u>

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

The School District's Funds

The School District's funds are accounted for using the modified accrual basis of accounting. The total revenues are \$57,898,484 and total expenditures are \$50,699,697. The total net change in fund balance across all governmental funds was an increase of \$7,198,787. The general fund reported a net increase in fund balance amounting to \$7,224,203 or 42.9%. The increase for the general fund is due to an increase in property tax revenues of \$5,293,774 for the current year when compared to the previous year. Net decreases across all other nonmajor governmental funds amounted to \$25,416, or 1.4%. This decrease was not related to any individual transaction but from conservative spending in those funds.

The schedule below shows the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

Table 3
Fund Balances

	Fund Balance <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	Increase (Decrease)
General	\$ 24,054,155	\$ 16,829,952	\$ 7,224,203
Other governmental	1,801,907	1,827,323	(25,416)
Total	<u>\$ 25,856,062</u>	<u>\$ 18,657,275</u>	<u>\$ 7,198,787</u>

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. During fiscal year 2016, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$49,249,758, which was higher than the original budget estimate of \$46,662,352. This difference of \$2,587,406, or 5.5%, is due primarily to an increase in property tax and intergovernmental tax revenue estimates. Such differences can be expected due to the use of estimates and the uncertainty of property taxes and grant awards, the amounts of which are unknown during the original budgeting process. Such estimates must be adjusted during the year as the awards are finalized. The actual revenue and other financing sources was \$49,264,315, which was slightly higher than the final budget estimate.

The original budgeted expenditures and other financing uses estimate of \$46,208,131 was revised slightly over the fiscal year. The final budget for expenditures and other financing uses estimate was \$45,998,481 or \$209,650 lower than the original. The final appropriation was adjusted at year-end to reflect actual expenditures and encumbrances for the fiscal year. No significant expenditure budget revisions were posted to the general fund during the year.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$24,721,501 invested in capital assets. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 1,648,218	\$ 1,648,218
Construction in progress	7,500	-
Land improvements	319,539	182,917
Buildings and improvements	21,068,884	21,391,911
Furniture, fixtures and equipment	715,605	541,704
Vehicles	<u>961,755</u>	<u>890,998</u>
Total capital assets	<u>\$ 24,721,501</u>	<u>\$ 24,655,748</u>

The total increase in capital assets is due to current year acquisitions exceeding current year depreciation expense. See Note 7 to the basic financial statements for detail on the School District's capital assets. It should be noted that the vehicles being reported at a cost of \$3,256,060 have a book value of only \$961,755 or approximately 29.5% of cost. This indicates that the vehicles, in total, are considerably depreciated and perhaps a number of vehicles, such as buses, are approaching the end of their useful lives.

Debt

At June 30, 2016, the School District has general obligation bonds, including unamortized premiums and accreted interest on capital appreciation bonds, outstanding of \$17,660,938, with \$1,835,000 due within one year. Also, the School District has energy conservation loans of \$637,379, with \$102,150 due within one year. The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund, except for the energy conservation loans which are paid from the general fund.

At June 30, 2016, the School District's overall legal debt limit (the ability to issue additional amounts of general obligation debt) was \$30,392,579, with an unvoted debt limit of \$520,806. See Note 13 to the basic financial statements for detail on the School District's debt activity and long-term obligations.

Kent City School District

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

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor the School District's revenues and expenditures. The five year financial forecast is discussed and updated regularly. Due to unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. The School District will be faced with financial challenges in the future. These challenges stem from issues at the local, state, and federal levels. The local challenges will continue to exist as the School District must rely heavily on property taxes to fund its operations as a result of the state's current funding system. Moreover, unfunded state mandates and the expansion of public school choice options continue to divert potential unrestricted operating resources away from traditional public school districts. Recent issues at the federal level have also had an impact on the School District. Automatic spending cuts instituted by the 2013 Budget Sequestration have led to a reduction in federal grant funding for the School District. Although the School District relies heavily on its property taxpayers to support its operations, community support remains quite strong.

As part of a district-wide savings plan, the Board of Education took action prior to the 2014-15 school year to close Franklin Elementary and Central School buildings due to declining enrollment and financial considerations. School District elementary students attend one of the remaining four elementary buildings under a redistricting plan that considered enrollment, transportation, and space availability. In addition and as a result of these building closings the School District reduced secondary and other staff levels; and achieved cost savings through negotiated reductions to projected personnel costs in the areas of salaries and health insurance.

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

Contacting the School District's Financial Management

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

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

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 30,186,912
Cash and cash equivalents:	
In segregated accounts	7,500
Inventory held for resale	15,692
Materials and supplies inventory	87,151
Receivables:	
Accounts	106,120
Intergovernmental	1,186,769
Accrued interest	9,626
Taxes	27,902,450
Revenue in lieu of taxes	236,380
Prepaid items	48,766
Capital assets:	
Land and construction in progress	1,655,718
Depreciable capital assets	47,604,373
Accumulated depreciation	(24,538,590)
Total capital assets	<u>24,721,501</u>
Total assets	<u>84,508,867</u>
<u>Deferred outflows of resources:</u>	
Pension	<u>6,660,817</u>
<u>Liabilities:</u>	
Accounts payable	217,688
Contracts payable	191,555
Accrued wages	2,638,323
Intergovernmental payable	842,031
Undistributed monies	4,559
Accrued interest payable	49,113
Claims payable	768,210
Long-term liabilities:	
Due within one year	2,490,811
Due in more than one year:	
Net pension liability	69,341,095
Other amounts due in more than one year	18,386,905
Total liabilities	<u>94,930,290</u>
<u>Deferred inflows of resources:</u>	
Property taxes	22,232,069
Payments in lieu of taxes	236,380
Pension	8,178,276
Total deferred inflows of resources	<u>30,646,725</u>
<u>Net position:</u>	
Net investment in capital assets	15,449,369
Restricted for:	
Debt service	1,609,757
Permanent fund purpose - trusts	
Expendable	1,896
Nonexpendable	1,500
Other purposes	558,400
Unrestricted	(52,028,253)
Total net position	<u>\$ (34,407,331)</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenues and Changes in Net Position
				Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$ 17,485,054	\$ 2,305,042	\$ 343,150	\$ (14,836,862)
Special	6,525,732	242,676	1,422,777	(4,860,279)
Vocational	2,095,793	1,093,441	259,065	(743,287)
Adult /continuing	40,268	36,520	-	(3,748)
Student intervention services	641,418	-	-	(641,418)
Other	549,968	-	-	(549,968)
Support services:				
Pupils	2,669,182	-	164,106	(2,505,076)
Instructional staff	1,386,278	62,565	306,575	(1,017,138)
Board of education	108,123	-	-	(108,123)
Administration	3,101,509	-	-	(3,101,509)
Fiscal	1,138,493	-	-	(1,138,493)
Business	239,854	-	-	(239,854)
Operation and maintenance of plant	3,602,706	179,402	1,605	(3,421,699)
Pupil transportation	1,656,321	41,764	49,698	(1,564,859)
Central	106,196	421	-	(105,775)
Operation of non-instructional services:				
Food service operations	1,203,165	408,076	839,206	44,117
Community services	412,024	83,605	262,950	(65,469)
Shared services	109,039	-	-	(109,039)
Extracurricular activities	1,176,817	258,749	-	(918,068)
Interest and fiscal charges	349,460	-	-	(349,460)
Total governmental activities	<u>\$ 44,597,400</u>	<u>\$ 4,712,261</u>	<u>\$ 3,649,132</u>	<u>(36,236,007)</u>

General Revenues:

Property taxes levied for:	
General purposes	28,455,293
Debt service	2,480,078
Grants and entitlements not restricted to specific programs	17,508,636
Investment earnings	76,951
Miscellaneous	321,751
Total general revenues	<u>48,842,709</u>
Change in net position	12,606,702
Net position at beginning of year	(47,014,033)
Net position at end of year	<u>\$ (34,407,331)</u>

See accompanying notes to the basic financial statements.

Kent City School District
Balance Sheet
Governmental Funds
June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 21,995,071	\$ 1,942,292	\$ 23,937,363
Cash and cash equivalents:			
In segregated accounts	-	7,500	7,500
Inventory held for resale	-	15,692	15,692
Materials and supplies inventory	86,649	502	87,151
Receivables:			
Accounts	106,102	18	106,120
Intergovernmental	1,023,120	163,649	1,186,769
Accrued interest	9,626	-	9,626
Interfund	271,364	-	271,364
Taxes	25,679,580	2,222,870	27,902,450
Revenue in lieu of taxes	236,380	-	236,380
Prepaid items	48,141	625	48,766
Total assets	<u>\$ 49,456,033</u>	<u>\$ 4,353,148</u>	<u>\$ 53,809,181</u>
Liabilities, deferred inflows of resources and fund balances:			
<u>Liabilities:</u>			
Accounts payable	\$ 203,812	\$ 13,876	\$ 217,688
Contracts payable	-	191,555	191,555
Accrued wages	2,513,756	124,567	2,638,323
Interfund payable	-	271,364	271,364
Intergovernmental payable	821,523	20,508	842,031
Undistributed monies	4,559	-	4,559
Total liabilities	<u>3,543,650</u>	<u>621,870</u>	<u>4,165,520</u>
<u>Deferred inflows of resources:</u>			
Property taxes	20,471,981	1,760,088	22,232,069
Payments in lieu of taxes	236,380	-	236,380
Unavailable revenue - delinquent property taxes	404,244	33,737	437,981
Unavailable revenue - other	745,623	135,546	881,169
Total deferred inflows of resources	<u>21,858,228</u>	<u>1,929,371</u>	<u>23,787,599</u>
<u>Fund balances:</u>			
Nonspendable	134,790	2,125	136,915
Restricted	-	2,151,004	2,151,004
Assigned	596,184	-	596,184
Unassigned	23,323,181	(351,222)	22,971,959
Total fund balances	<u>24,054,155</u>	<u>1,801,907</u>	<u>25,856,062</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 49,456,033</u>	<u>\$ 4,353,148</u>	<u>\$ 53,809,181</u>

See accompanying notes to the basic financial statements.

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

Total governmental fund balances		\$ 25,856,062
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.		24,721,501
Other long-term assets that are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:		
Property taxes	\$ 437,981	
Intergovernmental	533,601	
Tuition and fees	347,268	
Rent	<u>300</u>	
		1,319,150
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		5,481,339
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 the funds:		
Deferred outflows - pension	\$ 6,660,817	
Deferred inflows - pension	(8,178,276)	
Net pension liability	<u>(69,341,095)</u>	
		(70,858,554)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(49,113)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds:		
Serial and term	\$ (16,480,000)	
Premium	(1,180,938)	
Compensated absences	(2,374,863)	
Energy conservation loan	(637,379)	
Capital leases	<u>(204,536)</u>	
Total		<u>(20,877,716)</u>
Net position of governmental activities		<u>\$ (34,407,331)</u>

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 29,099,090	\$ 2,536,254	\$ 31,635,344
Intergovernmental	17,918,270	3,174,959	21,093,229
Interest	76,951	228	77,179
Tuition and fees	3,593,981	-	3,593,981
Extracurricular activities	80,116	246,749	326,865
Gifts and donations	50,357	27,061	77,418
Customer services	46,823	409,576	456,399
Rent	197,738	1,240	198,978
Miscellaneous	411,246	27,845	439,091
Total revenues	<u>51,474,572</u>	<u>6,423,912</u>	<u>57,898,484</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	18,446,828	226,815	18,673,643
Special	5,903,503	1,097,519	7,001,022
Vocational	2,202,690	-	2,202,690
Adult/Continuing	38,870	-	38,870
Student intervention services	657,864	-	657,864
Other	588,544	-	588,544
Support services:			
Pupils	2,703,520	173,745	2,877,265
Instructional staff	1,186,039	315,589	1,501,628
Board of education	108,517	-	108,517
Administration	3,384,042	-	3,384,042
Fiscal	1,138,590	50,427	1,189,017
Business	260,370	-	260,370
Operation and maintenance of plant	3,528,961	137,863	3,666,824
Pupil transportation	1,566,604	50,090	1,616,694
Central	107,655	390	108,045
Operation of non-instructional services:			
Food service operations	-	1,198,539	1,198,539
Community services	130,342	298,643	428,985
Shared services	121,528	-	121,528
Extracurricular activities	872,858	335,825	1,208,683
Capital outlay	511,739	731,973	1,243,712
Debt service:			
Principal retirement	161,812	1,830,000	1,991,812
Interest and fiscal charges	38,224	593,179	631,403
Total expenditures	<u>43,659,100</u>	<u>7,040,597</u>	<u>50,699,697</u>
Excess of revenues over (under) expenditures	<u>7,815,472</u>	<u>(616,685)</u>	<u>7,198,787</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	591,269	591,269
Transfers out	(591,269)	-	(591,269)
Total other financing sources (uses)	<u>(591,269)</u>	<u>591,269</u>	<u>-</u>
Net change in fund balances	7,224,203	(25,416)	7,198,787
Fund balances at beginning of year	16,829,952	1,827,323	18,657,275
Fund balances at end of year	<u>\$ 24,054,155</u>	<u>\$ 1,801,907</u>	<u>\$ 25,856,062</u>

See accompanying notes to the basic financial statements.

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

Net change in fund balances - total governmental funds	\$ 7,198,787
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.	
In the current period, these amounts are:	
Capital outlay	\$ 1,243,712
Depreciation expense	(1,176,559)
Excess of capital outlay over depreciation expense	<u>67,153</u>
Governmental funds only report 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 disposal.	(1,400)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:	
Property taxes	\$ (699,973)
Intergovernmental	(11,565)
Tuition and fees	16,856
Rent	300
Net change in deferred inflows of resources during the year	<u>(694,382)</u>
Contractually required pension contributions are reported as expenditures in the governmental funds; however, the statement of activities reports these amounts as deferred outflows.	3,798,633
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(1,467,483)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,830,000
Repayment of capital lease and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	161,812
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	\$ 288,095
Decrease in accrued interest	637
Amortization of:	
Premium	304,814
Bond accretion	(23,508)
Total additional expenditures	<u>570,038</u>
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds is reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	<u>1,143,544</u>
Change in net position of governmental activities	<u><u>\$ 12,606,702</u></u>
See accompanying notes to the basic financial statements.	

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 26,650,000	\$ 27,195,269	\$ 27,209,826	\$ 14,557
Intergovernmental	16,564,500	17,910,987	17,910,987	-
Interest	57,500	75,814	75,814	-
Tuition and fees	3,065,050	3,410,901	3,410,901	-
Rent	150,700	170,241	170,241	-
Gifts and donations	1,502	1,542	1,542	-
Customer services	13,750	16,193	16,193	-
Miscellaneous	25,850	288,559	288,559	-
Total revenues	<u>46,528,852</u>	<u>49,069,506</u>	<u>49,084,063</u>	<u>14,557</u>
Expenditures:				
Current:				
Instruction:				
Regular	19,062,595	18,871,537	18,871,537	-
Special	6,247,658	6,099,224	6,099,224	-
Vocational	2,498,451	2,558,552	2,558,552	-
Student intervention services	808,063	693,938	693,938	-
Other	574,000	596,289	596,289	-
Support services:				
Pupils	2,737,853	2,751,349	2,751,349	-
Instructional staff	1,273,933	1,228,772	1,228,772	-
Board of education	117,243	106,820	106,820	-
Administration	3,687,910	3,438,224	3,438,224	-
Fiscal	1,056,003	1,142,576	1,142,576	-
Business	265,899	272,172	272,172	-
Operation and maintenance of plant	3,629,663	3,805,872	3,805,872	-
Pupil transportation	2,124,573	2,016,499	2,016,499	-
Central	109,357	111,497	111,497	-
Operation of non-instructional services:				
Community services	8,070	4,919	4,919	-
Shared services	122,876	125,729	125,729	-
Extracurricular activities	890,167	883,721	883,721	-
Capital outlay	139,048	186,934	186,934	-
Total expenditures	<u>45,353,362</u>	<u>44,894,624</u>	<u>44,894,624</u>	<u>-</u>
Excess of revenues over expenditures	<u>1,175,490</u>	<u>4,174,882</u>	<u>4,189,439</u>	<u>14,557</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	10,770	10,770	-
Refund of prior year expenditures	-	37,779	37,779	-
Refund of prior year receipts	(5,000)	(224)	(224)	-
Advances in	133,500	131,703	131,703	-
Advances out	(133,500)	(389,864)	(389,864)	-
Transfers out	(716,269)	(713,769)	(713,769)	-
Total other financing sources (uses)	<u>(721,269)</u>	<u>(923,605)</u>	<u>(923,605)</u>	<u>-</u>
Net change in fund balance	454,221	3,251,277	3,265,834	14,557
Fund balance at beginning of year	17,420,774	17,420,774	17,420,774	-
Prior year encumbrances appropriated	480,300	480,300	480,300	-
Fund balance at end of year	<u>\$ 18,355,295</u>	<u>\$ 21,152,351</u>	<u>\$ 21,166,908</u>	<u>\$ 14,557</u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Fund Net Position
Internal Service Fund
June 30, 2016

	<u>Self Insurance</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 6,249,549</u>
<u>Liabilities:</u>	
Claims payable	<u>768,210</u>
<u>Net position:</u>	
Unrestricted	5,481,339
Total liabilities and net position	<u><u>\$ 6,249,549</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2016

	Self Insurance
<u>Operating revenues</u>	
Charges for services	\$ 5,541,745
Other	63,833
Total operating revenues	<u>5,605,578</u>
<u>Operating expenses:</u>	
Purchased services	628,464
Claims	3,803,806
Other	29,764
Total operating expenses	<u>4,462,034</u>
Change in net position	1,143,544
Net position at beginning of year	<u>4,337,795</u>
Net position at end of year	<u><u>\$ 5,481,339</u></u>

See accompanying notes to the basic financial statements.

Kent City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2016

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from other operating sources	\$ 63,833
Cash received for charges for services	5,571,467
Cash payments to suppliers for goods and services	(658,228)
Cash payments for claims	<u>(3,825,777)</u>
Net cash provided by operating activities	<u>1,151,295</u>
Net increase in cash and cash equivalents	1,151,295
Cash and cash equivalents at beginning of year	<u>5,098,254</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,249,549</u></u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>	
Operating income	<u>\$ 1,143,544</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets:	
(Increase) decrease in assets:	
Accounts receivable	29,722
Change in liabilities:	
Increase (decrease) in liabilities:	
Claims payable	<u>(21,971)</u>
Total adjustments	<u>7,751</u>
Net cash provided by operating activities	<u><u>\$ 1,151,295</u></u>

See accompanying notes to the basic financial statements.

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

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 126,441
Receivables:	
Accounts	<u>200</u>
Total assets	<u>\$ 126,641</u>
<u>Liabilities:</u>	
Accounts payable	\$ 2,293
Undistributed monies	354
Due to students	<u>123,994</u>
Total liabilities	<u>\$ 126,641</u>

See accompanying notes to the basic financial statements.

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the School District

The Kent City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's nine instructional/support facilities staffed by 116 non-certificated employees and 337 certificated teaching and support personnel who provide services to 3,244 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. This includes general operations, food service, preschool and student-related activities of the School District. The St. Patrick's School is a nonpublic school located within School District boundaries. Current legislation provides for State funding for this school. These monies are received and disbursed by the School District on behalf of the St. Patrick's School as directed by the school's management. Such transactions are reported as governmental activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2016.

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

A. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Governmental Fund Types

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

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

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

Proprietary Fund Type

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

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

Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 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, current liabilities, deferred outflows of resources 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.

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

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

Revenue - Exchange and Nonexchange Transactions

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

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

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

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

Expenditures/Expenses

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

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

D. Budgets and Budgetary Accounting

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budgeted revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to certificates of deposit, overnight repurchase agreements, and interest in STAR Ohio, the State Treasurer's Investment Pool. All investments of the School District had a maturity of two years or less. These investments are stated at cost, which approximates market value (fair value).

The School District investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as explained in Note 4.

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

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

F. Prepaids

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 purchase and an expenditure/expense is reported in the year which services are consumed.

G. Interfund Balances

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

H. Inventory

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

I. Capital Assets

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

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

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

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

J. Net pension liability and pension expense

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.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The current accounting standard requires School Districts to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding 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. Under the new standards, the net pension liability equals the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the School District. However, the School District is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The School District has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

K. Compensated Absences

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

M. Fund Balance

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

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

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

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

Assigned fund balance classifications are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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.

N. Net Position

Net position represents the difference between all other elements in a statement of financial position. Net position of net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

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

O. Operating Revenues and Expenses

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

P. Bond Premium

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

Q. Interfund Transactions

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

R. Estimates

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

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 – FUND BALANCES

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

Fund Balances	General	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>			
Materials and supplies inventory	\$ 86,649	\$ -	\$ 86,649
Prepays	48,141	625	48,766
Scholarships	-	1,500	1,500
Total nonspendable	<u>134,790</u>	<u>2,125</u>	<u>136,915</u>
<u>Restricted for</u>			
Food service	-	284,518	284,518
Athletics and music	-	88,090	88,090
Auxiliary services	-	7,670	7,670
Instructional programs	-	5,216	5,216
Endowments	-	1,896	1,896
Special trusts	-	61,814	61,814
Local grants	-	76,667	76,667
Debt service payments	-	1,625,133	1,625,133
Total restricted	<u>-</u>	<u>2,151,004</u>	<u>2,151,004</u>
<u>Assigned</u>			
Uniform school supplies	423	-	423
Public school support	63,883	-	63,883
Encumbrances	531,878	-	531,878
Total assigned	<u>596,184</u>	<u>-</u>	<u>596,184</u>
Unassigned (deficit)	<u>23,323,181</u>	<u>(351,222)</u>	<u>22,971,959</u>
Total fund balances	<u>\$ 24,054,155</u>	<u>\$ 1,801,907</u>	<u>\$ 25,856,062</u>

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

Net Change in Fund Balance	
	<u>General</u>
GAAP basis	\$ 7,224,203
Net adjustment for revenue accruals	(1,920,497)
Advances in	131,703
Net adjustment for expenditure accruals	(1,083,663)
Advances out	(389,864)
Encumbrances (Budget basis) outstanding at year-end	(689,903)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(421,463)
Transfers from general fund	(122,500)
Expenditures	537,818
Budget basis	<u>\$ 3,265,834</u>

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the School District and the investment is not a commercial paper note, a banker's acceptance or a repurchase agreement:

1. United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

8. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

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

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

A. Cash on Hand

At fiscal year-end, the School District had \$1,250 in undeposited cash on hand in various Board-approved change and petty cash accounts which is included as part of "equity in pooled cash and cash equivalents."

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, the carrying amount of the School District's deposits was \$9,424,811. The School District's bank balance of \$9,703,453 was not exposed to custodial credit risk.

C. Investments

As of June 30, the School District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreements	\$ 720,000	3.45%	Daily	AA+ ⁽¹⁾
STAR Ohio	<u>20,174,792</u>	96.55%	48.6 ⁽³⁾	AAAm ⁽²⁾
	<u>\$ 20,894,792</u>			

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

⁽²⁾ Standard and Poor's rating

⁽³⁾ Days (Average)

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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 tables identify the School District's recurring fair value measurement as of June 30, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

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

All interest is legally required to be placed in the general, food service, special trust, endowment and auxiliary services funds. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$76,951, which includes \$20,064 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$720,000 investment in repurchase agreements is to be secured by the specific securities upon which the repurchase agreements are based. As of June 30, 2016, the underlying investments were Federal National Mortgage Association (FNMA) bonds. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. The table above summarizes the School District's percentage of investments at the fiscal year end.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5 - PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used for public utilities) located in the School District. Real property tax revenue received in calendar 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 law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 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 Portage County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 which 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 \$4,803,355 in the general fund, and \$429,045 in the nonmajor governmental funds. The amount available as an advance at June 30, 2015, was \$2,914,091 in the general fund, and \$261,916 in the nonmajor governmental funds.

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

All property is required to be revalued every six years; however, updates are performed periodically. The last update was completed in 2015.

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

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

<u>Property Category</u>	<u>2015 Assessed Value</u>	<u>2014 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 340,502,560	\$ 333,795,250
Commercial, industrial and minerals	166,798,620	148,770,460
Public utilities	261,690	274,800
<u>Tangible Personal Property</u>		
Public utilities	<u>13,243,560</u>	<u>11,867,240</u>
Total	<u>\$ 520,806,430</u>	<u>\$ 494,707,750</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition, fees and other miscellaneous), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

The general fund and nonmajor governmental funds accounts receivable at year-end consisted of fees, tuition and other miscellaneous reimbursements of \$106,102 and \$18 respectively.

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

<u>Intergovernmental receivables</u>	<u>General</u>	<u>Other Governmental Funds</u>
Medicaid reimbursement	\$ 30,587	\$ -
Catastrophic aid	338,717	-
Excess costs reimbursements	611,458	-
Foundation payment true-up	25,859	-
Other miscellaneous reimbursements	16,499	-
Lunch and breakfast program reimbursement	-	26,731
State and Federal grant reimbursements	-	<u>136,918</u>
Total intergovernmental receivable	<u>\$ 1,023,120</u>	<u>\$ 163,649</u>

Kent City School District
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NOTE 7 – CAPITAL ASSETS

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

Governmental Activities	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 1,648,218	\$ -	\$ -	\$ 1,648,218
Construction in progress	<u>-</u>	<u>7,500</u>	<u>-</u>	<u>7,500</u>
Total capital assets, not being depreciated	<u>1,648,218</u>	<u>7,500</u>	<u>-</u>	<u>1,655,718</u>
Capital assets, being depreciated:				
Land improvements	523,090	166,025	-	689,115
Buildings and improvements	40,174,984	498,307	-	40,673,291
Furniture, fixtures and equipment	2,726,702	273,205	(14,000)	2,985,907
Vehicles	<u>3,275,300</u>	<u>298,675</u>	<u>(317,915)</u>	<u>3,256,060</u>
Total capital assets, being depreciated	<u>46,700,076</u>	<u>1,236,212</u>	<u>(331,915)</u>	<u>47,604,373</u>
Less: Accumulated depreciation				
Land improvements	(340,173)	(29,403)	-	(369,576)
Buildings and improvements	(18,783,073)	(821,334)	-	(19,604,407)
Furniture, fixtures and equipment	(2,184,998)	(97,904)	12,600	(2,270,302)
Vehicles	<u>(2,384,302)</u>	<u>(227,918)</u>	<u>317,915</u>	<u>(2,294,305)</u>
Total accumulated depreciation	<u>(23,692,546)</u>	<u>(1,176,559)</u>	<u>330,515</u>	<u>(24,538,590)</u>
Total capital assets being depreciated, net	<u>23,007,530</u>	<u>59,653</u>	<u>(1,400)</u>	<u>23,065,783</u>
Governmental activities capital assets, net	<u>\$ 24,655,748</u>	<u>\$ 67,153</u>	<u>\$ (1,400)</u>	<u>\$ 24,721,501</u>

Kent City School District
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 660,063
Special	843
Vocational	33,565
Adult	1,398
Support services:	
Instructional staff	5,172
Administration	9,282
Business	8,480
Operation and maintenance of plant	209,342
Pupil transportation	209,334
Central	2,616
Food service operations	1,769
Extracurricular activities	<u>34,695</u>
Total depreciation expense	<u>\$ 1,176,559</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund balances at June 30, 2016 consisted of the following:

Due to general fund from:	
Nonmajor governmental funds	\$ 271,364

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2016, all interfund loans outstanding are anticipated to be repaid in fiscal year 2017.

B. Transfers at June 30, 2016 consisted of the following:

Transfers from general fund to:	
Nonmajor governmental funds	\$ 591,269

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

NOTE 9 - RISK MANAGEMENT

A. Property and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

B. Employee Medical Benefits

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$768,210 reported in the fund at year end was estimated by the third party administrator and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund’s claims liability during 2015 and 2016 were:

	Year ended 6/30/2015	Year ended 6/30/2016
Unpaid claims, beginning of fiscal year	\$ 904,337	\$ 790,181
Incurred claims (including IBNRs)	3,191,705	3,803,806
Claim payments	<u>(3,305,861)</u>	<u>(3,825,777)</u>
Unpaid claims, end of fiscal year	<u>\$ 790,181</u>	<u>\$ 768,210</u>

C. Worker’s Compensation

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

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.

Kent 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.

A. School Employees Retirement System

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 <u>August 1, 2017</u> *	Eligible to Retire on or after <u>August 1, 2017</u>
Full benefits	Age 65 with 5 years of service credit or 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.

Kent 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 \$665,730 for fiscal year 2016. Of this amount \$23,710 is reported as an intergovernmental payable.

B. State Teachers Retirement System

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 is 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 increased 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.

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.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5 percent of the 13 percent member rate goes to the DC Plan and 1.5 percent goes to the DB Plan. Member contributions to the DC Plan 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. Effective July 1, 2016 the statutory maximum employee contribution rate was increased to 14 percent. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. 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 \$3,132,903 for fiscal year 2016. Of this amount \$326,505 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:

Kent City School District
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.203303%	0.2275848%	
Proportion of the net pension liability - current measurement date	<u>0.177652%</u>	<u>0.2142199%</u>	
Change in proportionate share	<u>-0.025651%</u>	<u>-0.013365%</u>	
Proportionate share of the net pension liability	\$10,136,978	\$59,204,117	\$69,341,095
Pension expense	\$39,572	\$1,427,911	\$1,467,483

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	\$ 163,223	\$ 2,698,961	\$ 2,862,184
School District contributions subsequent to the measurement date	<u>665,730</u>	<u>3,132,903</u>	<u>3,798,633</u>
Total deferred outflows of resources	<u>\$ 828,953</u>	<u>\$ 5,831,864</u>	<u>\$ 6,660,817</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 335,872	\$ 4,257,895	\$ 4,593,767
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	<u>983,864</u>	<u>2,600,645</u>	<u>3,584,509</u>
Total deferred inflows of resources	<u>\$ 1,319,736</u>	<u>\$ 6,858,540</u>	<u>\$ 8,178,276</u>

\$3,798,633 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:

Fiscal Year	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (436,306)	\$ (1,611,027)	\$ (2,047,333)
2018	(436,306)	(1,611,027)	(2,047,333)
2019	(437,082)	(1,611,027)	(2,048,109)
2020	<u>153,181</u>	<u>673,502</u>	<u>826,683</u>
Total	<u>\$ (1,156,513)</u>	<u>\$ (4,159,579)</u>	<u>\$ (5,316,092)</u>

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 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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
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	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

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 <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$ 14,056,346	\$10,136,978	\$6,836,548

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.

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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.

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real 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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

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:

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$ 82,238,985	\$59,204,117	\$39,724,701

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C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2016, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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, there was no allocation of covered payroll 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 \$86,842.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$86,842, \$136,787, and \$113,414, respectively. For fiscal year 2016, 0 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

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Notes to the Basic Financial Statements
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B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. 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 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 authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016 and fiscal year 2015, STRS did not allocate any employer contributions 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 \$237,243 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 12 - STATUTORY RESERVES

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. The School District may replace using general fund revenues with proceeds from various sources (offsets), such as bond or levy proceeds related to the acquisition, replacement, enhancement, maintenance or repair of permanent 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.

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

	Capital Maintenance <u>Reserve</u>
Set-aside cash balance as of June 30, 2015	\$ -
Current year set-aside requirement	557,372
Qualifying disbursements	<u>(2,236,344)</u>
Total	\$ <u>(1,678,972)</u>
Balance carried forward to future years	<u>\$ -</u>

Kent City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 13 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<u>Governmental activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due in</u> <u>one year</u>
<u>General obligation bonds</u>					
2013 Library refunding bonds	\$ 8,570,000	\$ -	\$ (30,000)	\$ 8,540,000	\$ 540,000
Premium	799,584	-	(108,683)	690,901	-
2013 School improvement refunding bonds	7,740,000	-	(1,085,000)	6,655,000	1,095,000
Premium	661,812	-	(189,127)	472,685	-
2004 Library bonds					
Capital appreciation bonds	239,996	-	(239,996)	-	-
Accretion on bonds	253,906	16,098	(270,004)	-	-
2007 Refunding bonds					
Serial and term bonds	1,285,000	-	-	1,285,000	200,000
Capital appreciation bonds	113,820	-	(113,820)	-	-
Accretion on bonds	83,770	7,410	(91,180)	-	-
Premium	24,356	-	(7,004)	17,352	-
Total bonds	19,772,244	23,508	(2,134,814)	17,660,938	1,835,000
<u>Other obligations</u>					
Energy conservation loans	735,315	-	(97,936)	637,379	102,150
Compensated absences	2,662,958	473,545	(761,640)	2,374,863	487,841
Capital leases payable	268,412	-	(63,876)	204,536	65,820
Total other liabilities	3,666,685	473,545	(923,452)	3,216,778	655,811
<u>Net pension liability</u>					
STRS	55,356,502	3,847,615	-	59,204,117	-
SERS	10,289,049	-	(152,071)	10,136,978	-
Total net pension liability	65,645,551	3,847,615	(152,071)	69,341,095	-
Governmental activities long-term liabilities	\$ 89,084,480	\$ 4,344,668	\$ (3,210,337)	\$ 90,218,811	\$ 2,490,811

<u>General Obligation Bonds</u>	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
2004 Library	\$ 13,500,000	3.50%	12/1/2015
2007 Refunding	2,149,996	3.93 - 4.25%	12/1/2021
2013 Library refunding	8,600,000	2% - 4.5%	12/1/2028
2013 School improvement refunding	7,820,000	0.65% - 5%	12/1/2021

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

During fiscal year 2013, the School District issued \$8,600,000 and \$7,820,000 in general obligation bonds to be used for the refunding of a portion of the 2004 Library Bonds and a portion of the 2004 School Improvement Refunding Bonds respectively.

The 2013 Library Refunding Bonds proceeds consisted of bond principal and \$908,721 of premium. The net proceeds of \$9,397,093 (after payment of underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 2004 Library Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was not significant as the remaining old debt was called and was redeemed on December 1, 2014. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

The 2013 School Improvement Refunding Bonds proceeds consisted of bond principal and \$881,710 of premium. The net proceeds of \$8,606,463 (after payment of underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 2004 School Improvement Refunding Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was not significant as the remaining old debt was called and was redeemed on December 1, 2014. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

During fiscal year 2008, the School District issued \$2,149,996 in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 3.625-4.25%. The bonds were used to refund \$2,150,000 of outstanding 1998 School Improvement Bonds with an average interest rate of 5.1%. The final amounts of the 2007 capital appreciation bonds were \$610,000. The bond proceeds consisted of bond principal and \$104,530 of premium. The difference between the reacquisition price and the net carrying amount of the old debt was not significant as the old debt was called and subsequently redeemed. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

During fiscal year 2004, the School District issued bonds on behalf of the Kent Free Library. This bond issue and the ones issued in 2007 include serial and capital appreciation bonds. Current year additions amounted to \$16,098, and \$7,410 respectively, which represent the accretion of discounted interest. The final amounts including accreted interest of the 2004 library bonds and 2007 refunding capital appreciation bonds were \$510,000, and \$205,000 respectively.

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

Principal and interest requirements to amortize all bonds outstanding at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 1,835,000	\$ 574,501	\$ 2,409,501
2018	1,865,000	537,750	2,402,750
2019	1,895,000	472,475	2,367,475
2020	1,975,000	383,875	2,358,875
2021	2,055,000	291,600	2,346,600
2022-2026	4,690,000	640,900	5,330,900
2027-2029	<u>2,165,000</u>	<u>92,775</u>	<u>2,257,775</u>
Total	<u>\$ 16,480,000</u>	<u>\$ 2,993,876</u>	<u>\$ 19,473,876</u>

Energy Conservation Loans: During fiscal year 2007, the School District entered into two energy conservation projects that were financed with separate installment agreements. The installment agreements were collateralized as lease-purchase agreements. The first agreement, for \$996,152, began in June 2006 with draws being taken as the project progressed. The second agreement, for \$414,355, began in May 2007 with draws being taken in the same manner as the first agreement. The aggregate amount of the principal component of payments under the agreement was \$1,410,507 and the interest component of those payments accrues at a rate not to exceed 4.29%. Payments under the agreements, including principal and interest amount to \$128,201 annually. The final payment under the agreements is due June 23, 2022. The debt will be repaid from the general fund.

Principal and interest requirements to amortize both energy conservation loans at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 102,150	\$ 26,051	\$ 128,201
2018	106,546	21,655	128,201
2019	111,131	17,070	128,201
2020	115,914	12,287	128,201
2021	120,902	7,299	128,201
2022	<u>80,736</u>	<u>2,093</u>	<u>82,829</u>
Total	<u>\$ 637,379</u>	<u>\$ 86,455</u>	<u>\$ 723,834</u>

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

The School District pays pension obligations related to employee compensation from the fund benefitting from their service.

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets acquired by the lease have been capitalized as equipment in the amount of \$53,495 and vehicles in the amount of \$288,960. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$63,876.

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

Fiscal <u>Year</u>	Lease <u>Payments</u>
2017	\$ 71,835
2018	71,835
2019	71,835
2020	<u>995</u>
Total minimum lease payments	216,500
Less: amount representing interest	<u>(11,964)</u>
Total	<u>\$ 204,536</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Metropolitan Regional Service Council (MRSC) is the computer service organization or Information Technology Center (ITC) used by the School District. MRSC is also known as Northeast Ohio Network for Educational Technology (NEOnet), which is the name used exclusively prior to their reorganization from a consortium to a council of governments. The superintendent from each member entity is appointed to the legislative body of MRSC known as the assembly. The assembly elects a board of directors consisting of nine members. These members comprise the managerial body of the council and meet at least five times yearly. The operations of MRSC are under the control of the board of directors and the executive director. The purpose of the MRSC is to develop and employ a computer system efficiently and effectively for the needs of the member school districts. All members are required to pay fees, charges and assessments as charged. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2016, the School District contributed \$98,702 to MRSC. This contribution includes purchases of software and related items as well as payment for services. Financial information can be obtained by contacting the fiscal agent at 700 Graham Road, Cuyahoga Falls, Ohio 44221.

Kent City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The Six District Educational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend vocational or special education classes offered by any of the six school districts. If a student is accepted to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district which offers the class. The Hudson City School District serves as the fiscal agent for this agreement, collecting and distributing payments. All revenues are generated from charges for services. During fiscal year 2016, the School District contributed a nominal amount to the Compact. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

The Ohio Schools Council Association (Council) is a jointly governed organization among 201 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2016 the School District paid \$41,398 to the Council in the form of natural gas purchases. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council, at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

NOTE 16 - RELATED ORGANIZATION

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

NOTE 17 - CONTINGENCIES

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

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

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not yet finalized the impact of enrollment adjustments to the June 30, 2015 and 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 will result in either a receivable to or liability of the School District.

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

NOTE 18 – ACCOUNTABILITY

As of June 30, 2016, four funds had deficit fund balances. These deficits were caused by the application of GAAP. The general fund provides advances to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had deficit balances:

<u>Fund</u>	<u>Amount</u>
Special revenue funds:	
Title VI-B	\$ 30,530
Title I	46,588
Improving teacher quality	13,873
Captial projects fund:	
Permanent improvement fund	259,671

NOTE 19 – CONTRACTUAL COMMITMENTS/ENCUMBRANCES

As of June 30, 2016, the School District’s general fund reported encumbrances not individually significant, as part of assigned fund balance. Other governmental funds reported outstanding encumbrances June 30, 2016 none of which are individually significant.

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Required Supplementary Information

Kent City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School Employees Retirement System (SERS) of Ohio			
School District's proportion of the net pension liability	0.177652%	0.203303%	0.203303%
School District's proportionate share of the net pension liability	\$ 10,136,978	\$ 10,289,049	\$ 12,089,777
School District's covered employee payroll	\$ 4,685,137	\$ 5,287,193	\$ 5,417,146
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	216.36%	194.60%	223.18%
Plan fiduciary net position as a percentage of total pension liability	69.16%	71.70%	65.52%
	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS) of Ohio			
School District's proportion of the net pension liability	0.2142199%	0.2275848%	0.2275848%
School District's proportionate share of the net pension liability	\$ 59,204,117	\$ 55,356,502	\$ 65,940,303
School District's covered employee payroll	\$ 22,349,664	\$ 23,465,085	\$ 23,526,692
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	264.90%	235.91%	280.28%
Plan fiduciary net position as a percentage of total pension liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available and the amounts presented are as of the School District's measurement date which is the prior fiscal year end.

Kent City School District
Required Supplementary Information
Schedule of the School District Contributions
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School Employees Retirement System (SERS) of Ohio				
Contractually required contribution	\$ 665,730	\$ 617,501	\$ 732,805	\$ 749,733
Contributions in relation to contractually required contribution	<u>(665,730)</u>	<u>(617,501)</u>	<u>(732,805)</u>	<u>(749,733)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered employee payroll	\$ 4,755,214	\$ 4,685,137	\$ 5,287,193	\$ 5,417,146
Contributions as a percentage of covered employee payroll	14.00%	13.18%	13.86%	13.84%

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS) of Ohio				
Contractually required contribution	\$ 3,132,903	\$ 3,128,953	\$ 3,050,461	\$ 3,058,470
Contributions in relation to contractually required contribution	<u>(3,132,903)</u>	<u>(3,128,953)</u>	<u>(3,050,461)</u>	<u>(3,058,470)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered employee payroll	\$ 22,377,879	\$ 22,349,664	\$ 23,465,085	\$ 23,526,692
Contributions as a percentage of covered employee payroll	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available.

Kent City School District
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

December 20, 2016

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kent City School District, Portage County, Ohio (the School District) as of and for the year ended June 30, 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 December 20, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hea & Associates, Inc.

Medina, Ohio

December 20, 2016

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

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by the Uniform Guidance**

Report on Compliance for Each Major Federal Program

We have audited Kent City School District's, Portage County, Ohio (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

Rea & Associates, Inc.

Medina, Ohio

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

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

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Expenditures	Amounts Paid to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Cash Assistance:				
School Breakfast Program	2016	10.553	\$ 206,306	\$ 0
National School Lunch Program	2016	10.555	567,277	0
Cash Assistance Subtotal			<u>773,583</u>	<u>0</u>
Non-Cash Assistance (Food Distribution):				
School Breakfast Program	2016	10.553	11,160	0
National School Lunch Program	2016	10.555	30,686	0
Non-Cash Assistance Subtotal			<u>41,846</u>	<u>0</u>
Total Child Nutrition Cluster			<u>815,429</u>	<u>0</u>
Total U.S. Department of Agriculture			815,429	0
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	2015	84.027	122,702	0
	2016	84.027	655,521	0
Total Special Education - Grants to States (IDEA Part B)			<u>778,223</u>	<u>0</u>
Special Education - Preschool Grants	2016	84.173	31,675	0
Total Special Education Cluster			<u>809,898</u>	<u>0</u>
Title I Grants to Local Educational Agencies	2015	84.010	85,260	0
	2016	84.010	691,213	0
Total Title I Grants to Local Educational Agencies			<u>776,473</u>	<u>0</u>
English Language Acquisition Grants (Title III)	2012	84.365	4	0
	2013	84.365	1,515	0
	2015	84.365	1,554	0
	2016	84.365	13,923	0
Total English Language Acquisition Grants (Title III)			<u>16,996</u>	<u>0</u>
Improving Teacher Quality State Grants (Title II-A)	2015	84.367	25,063	0
	2016	84.367	154,549	0
Total Improving Teacher Quality State Grants (Title II-A)			<u>179,612</u>	<u>0</u>
<i>Passed Through Six District Educational Compact:</i>				
Career and Technical Education - Basic Grants to State	2015	84.048	63,775	0
Total U.S. Department of Education			1,846,754	0
Total Federal Assistance			\$ 2,662,183	\$ 0

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

Kent City School District
Portage County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
2CFR200.510(b)(6)
For the Fiscal 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 Kent 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, changes in net position, or cash flows 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 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 programs that benefitted from the use of those donated food commodities.

**KENT CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR Section 200.515
JUNE 30, 2016

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster: Special Education – Grants to States (IDEA Part B) Special Education – Preschool Grants	CFDA #84.027 CFDA #84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: All others
(d) (1) (ix)	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 AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

KENT CITY SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 23, 2017**