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Certified Public Accountants, A.C.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
Single Audit  
For the Fiscal Year Ended June 30, 2016**

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- Association of Certified Anti - Money Laundering Specialists •





# Dave Yost • Auditor of State

Board of Education  
Solon City School District  
33800 Inwood Road  
Solon, Ohio 44139

We have reviewed the *Independent Auditor's Report* of the Solon City School District, Cuyahoga County, prepared by Perry & Associates, Certified Public Accountants, A.C., 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 Solon 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 24, 2017

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**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor’s Report .....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	18
Statement of Activities .....	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	20
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund .....	24
Statement of Net Position – Proprietary Fund .....	25
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund .....	26
Statement of Cash Flows – Proprietary Fund .....	27
Statement of Assets and Liabilities – Fiduciary Fund .....	28
Notes to the Basic Financial Statements .....	29
Required Supplementary Information:	
Schedule of the District’s Proportionate Share of the Net Pension Liability – School Employees Retirement System (SERS) of Ohio .....	71
Schedule of the District’s Proportionate Share of the Net Pension Liability – State Teachers Retirement System (STRS) of Ohio .....	72
Schedule of District Contributions – School Employees Retirement System (SERS) of Ohio .....	73
Schedule of District Contributions – State Teachers Retirement System (STRS) of Ohio .....	74

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Notes to the Required Supplementary Information .....	75
Schedule of Federal Awards Receipts and Expenditures.....	76
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	77
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	78
Independent Auditor’s Report on Compliance with Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	80
Schedule of Audit Findings – 2 CFR § 200.515 .....	82



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## INDEPENDENT AUDITOR'S REPORT

December 23, 2016

Solon City School District  
Cuyahoga County  
33800 Inwood Road  
Solon, OH 44139

To the Board of Education:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Solon City School District**, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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



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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Solon City School District, Cuyahoga County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**Financial Highlights**

Key financial highlights for 2016 are as follows:

- The District's net position of governmental activities increased \$13,339,863, which represents a 43.43% increase from 2015.
- General revenues for governmental activities, accounted for \$77,859,355 in revenue or 93.36% of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$5,536,829 or 0.07% of total governmental activities revenues of \$83,396,184.
- The District had \$70,056,321 in expenses related to governmental activities; only \$5,536,829 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$77,859,355 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$74,739,262 in revenues and \$66,216,158 in expenditures and other financing uses. The general fund's fund balance increased \$8,523,104 from a balance of \$42,268,270 to \$50,791,374.
- The debt service fund had \$6,299,200 in revenues and other financing sources and \$6,022,859 in expenditures and other financing uses. During fiscal year 2016, the District issued Series 2015 general obligation refunding bonds and Series 2016 refunding notes. The refunding transaction, including the payments to the refunding bond escrow agent, are reported in the debt service fund. The debt service fund's fund balance increased \$276,341 from \$2,604,514 to \$2,880,855.

**Using the Basic Financial Statements (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These 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 District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Reporting the District as a Whole**

**Statement of net position and the statement of activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the 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 assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net position and statement of activities can be found on pages 18 - 19 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major governmental funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net position and the Statement of Activities) and governmental *funds* are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 20 - 24 of this report.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Proprietary Funds**

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for a self-insurance program which provides medical, dental and vision benefits to employees. The basic proprietary fund financial statements can be found on pages 25 - 27 of this report.

**Reporting the District's Fiduciary Responsibilities**

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of assets and liabilities on page 28. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29 - 69.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 71 - 77 of this report.

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**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for 2016 and 2015.

	Net Position - Governmental Activities	
	2016	2015
<b><u>Assets</u></b>		
Current and other assets	\$ 113,304,141	\$ 107,225,085
Capital assets, net	35,219,348	33,486,445
Total assets	148,523,489	140,711,530
<b><u>Deferred outflows of resources</u></b>		
Unamortized deferred charges	280,774	360,001
Pension	9,898,195	6,524,743
Total deferred outflows	10,178,969	6,884,744
<b><u>Liabilities</u></b>		
Current liabilities	10,678,026	11,152,030
Long-term liabilities:		
Due within one year	4,204,349	2,701,436
Due in more than one year:		
Net pension liability	100,232,468	91,253,117
Other amounts	12,604,437	16,053,447
Total liabilities	127,719,280	121,160,030
<b><u>Deferred inflows of resources</u></b>		
Property taxes and PILOTS	38,826,828	40,659,245
Pensions	9,528,831	16,489,343
Total deferred inflows	48,355,659	57,148,588
<b><u>Net Position</u></b>		
Net investment in capital assets	25,685,212	22,760,549
Restricted	11,504,433	10,126,882
Unrestricted (deficit)	(54,562,126)	(63,599,775)
Total net position (deficit)	\$ (17,372,481)	\$ (30,712,344)

The District has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

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

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

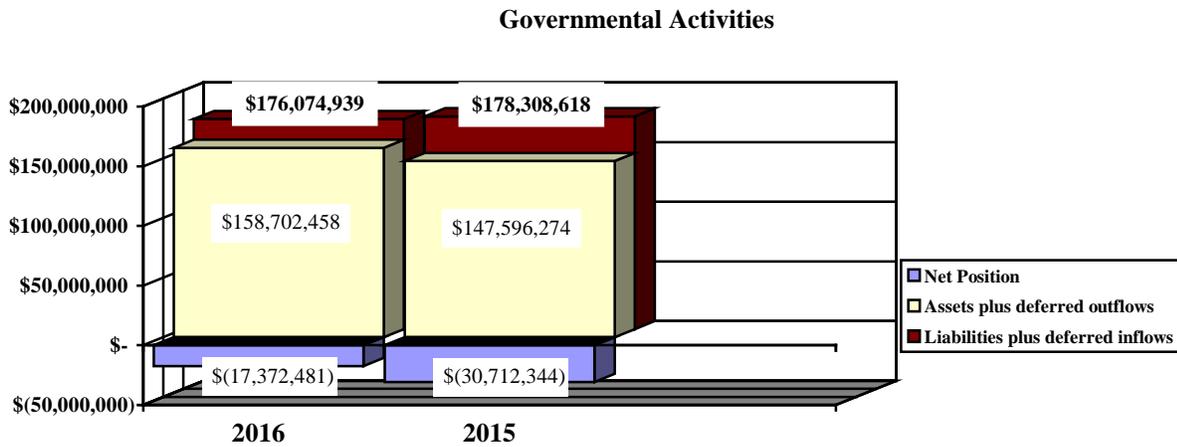
In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. In addition, the District has reported a net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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Total governmental activities net position increased \$13,339,863. Total assets of the District's governmental activities increased \$7,811,959 from June 30, 2015. Current assets increased primarily due to an increase in cash and investments of \$6,079,056 due to operations. The District's long-liabilities increased as a result of a \$8,979,351 increase in the net pension liability. This increase was partially offset by current year repayment of bonded debt and the advance refunding of previously issued bonds.

The graph below illustrates the District's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2016 and 2015.



**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The table below shows the change in net position for fiscal years 2016 and 2015.

	<u>Change in Net Position - Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 3,121,988	\$ 3,454,065
Operating grants and contributions	2,414,841	2,715,574
General revenues:		
Property taxes	59,259,137	56,572,014
Payments in lieu of taxes	889,050	748,039
Grants and entitlements	16,653,216	16,862,446
Investment earnings	217,996	245,570
Increase (decrease) in fair value of investments	32,114	(124,629)
Miscellaneous	807,842	461,107
Total revenues	<u>83,396,184</u>	<u>80,934,186</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	32,216,085	32,139,026
Special	7,814,114	7,415,940
Vocational	402,767	80,786
Other	552,535	498,901
Support services:		
Pupil	3,916,493	3,807,387
Instructional staff	2,118,872	2,051,315
Board of education	36,284	47,375
Administration	4,115,567	3,930,724
Fiscal	1,613,185	1,547,233
Business	1,543,971	1,098,246
Operations and maintenance	7,322,693	8,411,362
Pupil transportation	3,057,799	3,507,281
Central	786,289	784,790
Operation of non-instructional services:		
Food service operations	1,786,056	1,725,753
Other non-instructional services	484,430	516,131
Extracurricular activities	1,896,165	1,902,007
Interest and fiscal charges	393,016	441,594
Total expenses	<u>70,056,321</u>	<u>69,905,851</u>
Change in net position	13,339,863	11,028,335
Net position at beginning of year	<u>(30,712,344)</u>	<u>(41,740,679)</u>
Net position at end of year	<u>\$ (17,372,481)</u>	<u>\$ (30,712,344)</u>

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

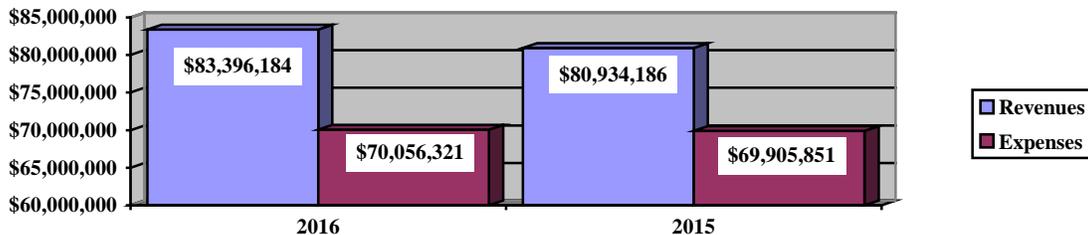
**Governmental Activities**

The net position of the District's governmental activities increased \$13,339,863 as revenues continued to exceed expenses in the current year. Total governmental expenses of \$70,056,321 were offset by program revenues of \$5,536,829 and general revenues of \$77,859,355. Program revenues supported 7.90% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 91.03% of total governmental activities revenue. The increase in property taxes is due to the increase in the amount collected by the County Fiscal Officer and available as advance at fiscal year-end. The amount collected and available as advance for the fiscal year end June 30, 2016 and June 30, 2015 was \$16,042,155 and \$12,814,382, respectively. The amount collected and available for advance can vary depending upon when tax bills are sent. Real estate property is reappraised every six years. Charges for services and sales decreased due primarily to a decrease in tuition revenue. Operating grants and contributions decreased primarily due to decreased federal funding for Title I and a decrease in special education allocation from State of Ohio Foundation funding. Payments in lieu of taxes revenue increased due to increased revenue related to the revenue sharing agreement with the Village of Glenwillow. Unrestricted grants and entitlements primarily from State funding in the form of Foundation remained comparable to the prior year. Investment earnings decreased as the District had more money invested in short-term, highly liquid investments rather than long-term, higher interest rate investments during fiscal year 2016. The District reported an increase in the fair value of investments of \$32,114 for 2016. The District intends to hold all investments to maturity thus eliminating the risk in fluctuations of fair value. Miscellaneous revenue increased due to receiving more money from local sources.

Overall, expenses increased \$150,470, or less than 1%, from 2015. Special instruction expenses increased due to increased costs associated with educating students with special needs. The District also incurred increased vocation instruction expenses due to increased tuition costs to other districts. These increases were offset by a decrease in operation and maintenance expenses due to few repair and maintenance projects (no capital projects) being performed in fiscal year 2016. In fiscal year 2015, the District performed various repair and maintenance projects to esthetically improve the appearances of District properties. The District continued with cost control measures to closely monitor expenses.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2016 and 2015.

**Governmental Activities - Revenues and Expenses**



**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2016 and 2015. It identifies the cost of services supported by tax revenue and restricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
Instruction:				
Regular	\$ 32,216,085	\$ 31,396,582	\$ 32,139,026	\$ 31,153,914
Special	7,814,114	7,099,861	7,415,940	6,474,106
Vocational	402,767	393,819	80,786	67,478
Other	552,535	227,112	498,901	96,500
Support services:				
Pupil	3,916,493	3,074,729	3,807,387	2,946,532
Instructional staff	2,118,872	2,031,409	2,051,315	1,948,647
Board of Education	36,284	36,284	47,375	47,375
Administration	4,115,567	4,115,567	3,930,724	3,930,724
Fiscal	1,613,185	1,613,185	1,547,233	1,547,233
Business	1,543,971	1,543,382	1,098,246	1,098,246
Operations and maintenance	7,322,693	7,137,497	8,411,362	8,273,683
Pupil transportation	3,057,799	2,950,931	3,507,281	3,372,864
Central	786,289	750,928	784,790	756,133
Food service operations	1,786,056	174,506	1,725,753	102,851
Operation of non-instructional services	484,430	25,451	516,131	(22,674)
Extracurricular activities	1,896,165	1,555,233	1,902,007	1,501,006
Note issuance cost	20,457	20,457	-	-
Interest and fiscal charges	372,559	372,559	441,594	441,594
Total expenses	<u>\$ 70,056,321</u>	<u>\$ 64,519,492</u>	<u>\$ 69,905,851</u>	<u>\$ 63,736,212</u>

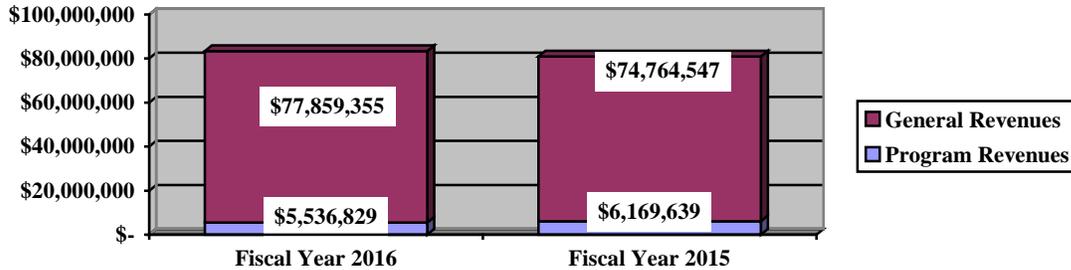
The dependence upon general revenues during fiscal year 2016 for governmental activities is apparent, as 95.44% of 2016 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 92.10% in 2016. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for District's students.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

During 2016 the District's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$60,842,204, which is above last year's total of \$50,833,115. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 50,791,374	\$ 42,268,270	\$ 8,523,104	20.16 %
Debt Service	2,880,855	2,604,514	276,341	10.61 %
Other Governmental	<u>7,169,975</u>	<u>5,960,331</u>	<u>1,209,644</u>	20.29 %
Total	<u>\$ 60,842,204</u>	<u>\$ 50,833,115</u>	<u>\$ 10,009,089</u>	19.69 %

**General Fund**

The District's general fund balance increased \$8,523,104 as revenues continued to exceed expenditures in the current year. Equity in pooled cash and investments in the general fund increased \$5,802,592 from \$38,670,985 at June 30, 2015 to \$44,473,577 at June 30, 2016.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The tables below assist in illustrating the financial activities of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 55,078,333	\$ 53,065,908	\$ 2,012,425	3.79 %
Payment in lieu of taxes	366,454	341,132	25,322	7.42 %
Tuition	810,220	1,193,334	(383,114)	(32.10) %
Earnings on investments	187,466	252,503	(65,037)	(25.76) %
Increase (decrease) in fair value of investments	32,114	(124,629)	156,743	(125.77) %
Intergovernmental	16,722,253	16,879,182	(156,929)	(0.93) %
Other revenues	<u>1,542,422</u>	<u>1,212,172</u>	<u>330,250</u>	27.24 %
Total	<u>\$ 74,739,262</u>	<u>\$ 72,819,602</u>	<u>\$ 1,919,660</u>	2.64 %
<b><u>Expenditures</u></b>				
Instruction	\$ 38,680,942	\$ 37,444,514	\$ 1,236,428	3.30 %
Support services	23,860,957	22,459,523	1,401,434	6.24 %
Operation of non-instructional services	152,289	155,401	(3,112)	(2.00) %
Extracurricular activities	1,527,099	1,394,644	132,455	9.50 %
Facilities acquisition and construction	1,873,888	1,571,603	302,285	19.23 %
Debt Service	<u>20,983</u>	<u>20,983</u>	-	- %
Total	<u>\$ 66,116,158</u>	<u>\$ 63,046,668</u>	<u>\$ 3,069,490</u>	4.87 %

The increase in property tax revenue is due to the increase in the amount collected by the County Fiscal Officer and available as advance at fiscal year-end. The amount collected and available as advance for the fiscal year end June 30, 2016 and June 30, 2015 was \$14,924,609 and \$11,943,620, respectively. The amount collected and available for advance can vary depending upon when tax bills are sent. Tuition revenue decreased due to fewer open enrollment participation. Earnings on investments decreased as the District had more money invested in short-term, highly liquid investments rather than long-term, higher interest rate investments during fiscal year 2016. The District reported an increase in the fair value of investments of \$32,114 for 2016. For 2015, the District had reported a decrease in the fair value of investments of \$124,629. The District carries investments at cost but is required to report investments at fair value. Fluctuations in the fair value of investments is reported separately from interest earnings. The District intends to hold all investments to maturity thus eliminating the risk in fluctuations of fair value. Intergovernmental revenue, primarily in the form of State of Ohio Foundation, remained comparable to the prior year. The increase in other revenues is due to the increase in reimbursements and other local sources.

Instruction expenditures increased 3.30% from the prior year. This area is the District's largest expenditure line item. The District has implemented reduced salary schedules for new certificated hires and changes in insurance benefits to help address future deficits. Facilities acquisition and construction increased due to various capital projects started in fiscal year 2016 to improve District facilities. Overall, expenditures increased 4.87% from 2015.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Debt Service Fund**

The District's debt service fund balance increased \$276,341. The tables below assist in illustrating the financial activities of the debt service fund.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>(Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 2,151,307	\$ 2,027,360	\$ 123,947	6.11 %
Intergovernmental	<u>207,893</u>	<u>200,994</u>	<u>6,899</u>	3.43 %
Total	<u>\$ 2,359,200</u>	<u>\$ 2,228,354</u>	<u>\$ 130,846</u>	5.87 %
<b><u>Expenditures</u></b>				
Support services	\$ 28,583	\$ 9,918	\$ 18,665	188.19 %
Debt Service:				
Principal retirement	1,550,000	1,445,000	105,000	7.27 %
Interest and fiscal charges	246,864	405,950	(159,086)	(39.19) %
Bond issuance cost	52,750	-	52,750	- %
Note issuance cost	<u>20,457</u>	<u>-</u>	<u>20,457</u>	- %
Total	<u>\$ 1,898,654</u>	<u>\$ 1,860,868</u>	<u>\$ 37,786</u>	2.03 %

The increase in property tax revenue is due to the increase in the amount collected by the County Fiscal Officer and available as advance at fiscal year-end. The amount collected and available as advance for the fiscal year end June 30, 2016 and June 30, 2015 was \$645,022 and \$490,050, respectively. The amount collected and available for advance can vary depending upon when tax bills are sent. During 2016, the debt service fund made principal payments on bonds of \$1,550,000. Interest and fiscal charges decreased as the District advance refunded higher interest rate debt during the fiscal year. The refunding issues caused the increase to bond and note issuance costs. Taxes and intergovernmental revenues were sufficient to cover debt service and fiscal changes incurred in the fund.

**General Fund Budgeting Highlights**

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

During fiscal year 2016, the District did not amend its general fund budgeted revenues and other financing sources. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, original and final budgeted revenues and other financing sources were \$72,213,872. The actual revenues and other financing sources were \$71,387,797, which was \$826,075 lower than the final budget revenues.

General fund final budgeted expenditures and other financing sources of \$83,565,544 were greater than the original budget of \$73,678,868. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$70,104,823, which were \$13,460,721 less than final budgeted appropriations. The primary variance between the final appropriations and actual expenditures were in the areas of instruction-regular, instruction-special, support services-operations and maintenance, and facilities acquisition and construction.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Capital Assets and Debt Administration**

Capital Assets

During fiscal year 2016, the District had \$35,219,348 invested in land, land improvements, buildings and improvements, furniture and equipment, and buses and other vehicles. This entire amount was reported in governmental activities.

The table below shows fiscal year 2016 balances compared to 2015:

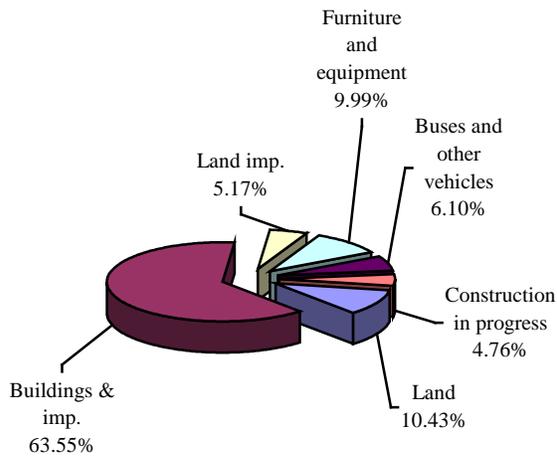
**Capital Assets at June 30 (Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 3,672,260	\$ 3,672,260
Land improvements	1,821,254	2,021,115
Buildings and improvements	22,382,167	22,022,991
Furniture and equipment	3,517,973	2,690,957
Buses and other vehicles	2,147,670	1,936,663
Construction in progress	<u>1,678,024</u>	<u>1,142,459</u>
Total	<u>\$ 35,219,348</u>	<u>\$ 33,486,445</u>

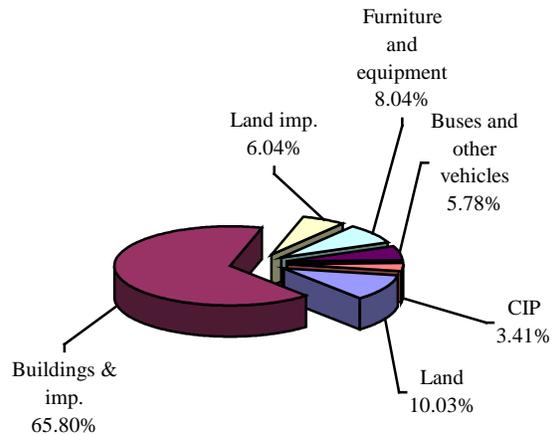
Total additions to governmental activities capital assets for 2016 were \$3,945,020. Governmental activities depreciation expense for fiscal year 2016 was \$2,210,817. Disposals net of accumulated depreciation were \$1,300. Overall, governmental activities capital assets of the District increased \$1,732,903.

The following graphs show the breakdown of the governmental activities capital assets by category for 2016 and 2015.

**Capital Assets - 2016**



**Capital Assets - 2015**



See Note 9 to the basic financial statements for additional information on the District's capital assets.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Debt Administration**

At June 30, 2016 the District had \$8,158,588 in general obligation bonds and general obligation notes outstanding. Of this total, \$3,145,000 is due within one year and \$5,013,588 is due within greater than one year.

The following table summarizes the governmental activities debt outstanding.

**Outstanding Debt, at Year End**

	Balance <u>June 30, 2016</u>	Balance <u>June 30, 2015</u>
General obligation bonds	\$ 6,623,588	\$ 9,623,658
General obligation notes	1,535,000	-
Capital lease obligation	<u>-</u>	<u>20,323</u>
Total	<u>\$ 8,158,588</u>	<u>\$ 9,643,981</u>

During fiscal year 2016, the District issued \$2,405,000 in refunding bonds and \$1,535,000 in refunding notes to advance refund the callable portion of previously issued bonds. See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District has been consistently rated as one of the top academic public school districts in the state of Ohio over the last decade and a half. The District has held the outstanding academic distinction of being rated an excellent public school district for 17 years. This distinction has been attained while only receiving approximately 5% of its total operating revenues from the State of Ohio's foundation funding formula. Local community and businesses have placed a significant emphasis on providing an outstanding education to its students, and have always supported the District.

The Board of Education and administration of the District are committed to careful financial planning and prudent fiscal management. An excellent working and supportive relationship exists between the District, the City of Solon, the Village of Glenwillow, the industrial community and the residents of the City.

Solon CSD is in a delicate position continuing to provide an excellent education, and at the same time battling minimal state formula funding, as well as a 2015 change in tax law which phases-out the District's tangible personal property reimbursements. TPP reimbursements account for approximately 13% of the District's operating revenues.

Based on the spring of 2015's legislation in House Bill 64, the remaining \$8,276,754 in reimbursement monies Solon CSD receives will be phased-out with a \$1,367,941 reduction in both fiscal year 2016 and 2017. Beginning in fiscal year 2018 the phase-out will be in the amount of \$737,020 per year until the District's entire \$8,276,754 is eliminated. This reduction in revenue will be devastating to our district in years to come. It will be increasingly difficult to provide an excellent education to students without a change in the current state funding structure.

Significant financial items to note are:

Fiscal Year 2010 - Expenditure reductions of approximately \$1,500,000 per year.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Fiscal Year 2011 - Expenditure reductions of approximately \$2,700,000 per year. On May 4, 2010, the District passed a new 6.9 mill operating levy which began generating revenue in calendar year 2011.

Fiscal Year 2012 - Expenditure reductions of approximately \$2,700,000 per year, a reduced salary schedule for new certificated hires, and changes in insurance benefits. \$1,200,000 per year in Tangible Personal Property state reimbursement revenues lost due to changes in State funding. This money is lost in perpetuity.

Fiscal Year 2013 – An additional \$1,200,000 per year in Tangible Personal Property state reimbursement revenues lost due to changes in State funding. This money is lost in perpetuity.

Fiscal Year 2014 - On November 5, 2013, the District passed a new 0.80 mill levy due to a long-term debt issuance being completely repaid and the tax bill being reduced by 0.80 mills. The new 0.80 levy was for 0.40 mills operating and 0.40 permanent improvements. The primary reason for this levy was to help offset increased costs attributed to Safety and Security. This levy began generating revenue in calendar year 2014.

Fiscal Year 2015 – The District was required to implement GASB 68 (described on pages 6 and 7). GASB 68 required the District to report its proportionate share of the unfunded pension liability of District employee's retirement systems (STRS and SERS). The District makes all legally and contractually required contributions to the retirement systems; however, GASB 68 requires the District to report its proportionate share of the retirement systems unfunded pension liabilities. The unfunded liabilities may be alleviated in the future by increasing the employee and/or employer legally required contributions; however, this has not occurred and is not likely to occur in the near future.

Fiscal Year 2016 – The phase-out of additional Tangible Personal Property tax monies began once again, reducing TPP revenues by more than \$1,000,000 this year. However, the State provided temporary relief by backfilling additional monies on a temporary basis for fiscal year 2016 and 2017 to hold the District harmless.

The District closed out its fiscal year on June 30, 2016 on a positive note staying within the total appropriations approved by the Board of Education and spending what was anticipated for the year. The District's ability to carry its cost saving measures into fiscal year 2017 and beyond has continued to prove beneficial to the District.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Tim Pickana, Treasurer of the Solon City School District at 33800 Inwood Road, Solon, Ohio 44139, or e-mail at [timpickana@solonboe.org](mailto:timpickana@solonboe.org).

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 55,446,446
Receivables:	
Property taxes . . . . .	56,587,223
Payment in lieu of taxes . . . . .	372,662
Accounts . . . . .	2,615
Accrued interest . . . . .	74,060
Intergovernmental . . . . .	668,804
Materials and supplies inventory . . . . .	122,044
Inventory held for resale . . . . .	30,287
Capital assets:	
Nondepreciable capital assets . . . . .	5,350,284
Depreciable capital assets, net . . . . .	29,869,064
Capital assets, net . . . . .	35,219,348
Total assets . . . . .	148,523,489
<b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	280,774
Pension - STRS . . . . .	8,085,627
Pension - SERS . . . . .	1,812,568
Total deferred outflows of resources . . . . .	10,178,969
<b>Liabilities:</b>	
Accounts payable . . . . .	2,838,913
Accrued wages and benefits payable . . . . .	5,321,770
Intergovernmental payable . . . . .	65,704
Pension and postemployment benefits payable . . . . .	1,101,303
Accrued interest payable . . . . .	27,836
Unearned revenue . . . . .	1,600
Claims payable . . . . .	1,320,900
Long-term liabilities:	
Due within one year . . . . .	4,204,349
Due in more than one year:	
Net pension liability . . . . .	100,232,468
Other amounts due in more than one year . . . . .	12,604,437
Total liabilities . . . . .	127,719,280
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year . . . . .	38,454,166
Payment in lieu of taxes levied for the next fiscal year	372,662
Pension - STRS . . . . .	8,760,039
Pension - SERS . . . . .	768,792
Total deferred inflows of resources . . . . .	48,355,659
<b>Net position:</b>	
Net investment in capital assets . . . . .	25,685,212
Restricted for:	
Capital projects . . . . .	7,877,657
Debt service . . . . .	2,665,446
Locally funded programs . . . . .	215,407
State funded programs . . . . .	123,493
Federally funded programs . . . . .	615,786
Student activities . . . . .	6,644
Unrestricted (deficit) . . . . .	(54,562,126)
Total net position (deficit) . . . . .	\$ (17,372,481)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

		<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 32,216,085	\$ 770,175	\$ 49,328	\$ (31,396,582)
Special . . . . .	7,814,114	377,340	336,913	(7,099,861)
Vocational . . . . .	402,767	-	8,948	(393,819)
Other . . . . .	552,535	-	325,423	(227,112)
Support services:				
Pupil . . . . .	3,916,493	801	840,963	(3,074,729)
Instructional staff . . . . .	2,118,872	2,595	84,868	(2,031,409)
Board of education . . . . .	36,284	-	-	(36,284)
Administration . . . . .	4,115,567	-	-	(4,115,567)
Fiscal . . . . .	1,613,185	-	-	(1,613,185)
Business . . . . .	1,543,971	-	589	(1,543,382)
Operations and maintenance . . . . .	7,322,693	185,196	-	(7,137,497)
Pupil transportation . . . . .	3,057,799	-	106,868	(2,950,931)
Central . . . . .	786,289	-	35,361	(750,928)
Operation of non-instructional services:				
Food service operations . . . . .	1,786,056	1,375,791	235,759	(174,506)
Other non-instructional services . . . . .	484,430	70,553	388,426	(25,451)
Extracurricular activities . . . . .	1,896,165	339,537	1,395	(1,555,233)
Interest and fiscal charges . . . . .	393,016	-	-	(393,016)
Total governmental activities . . . . .	70,056,321	3,121,988	2,414,841	(64,519,492)
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				55,286,696
Debt service . . . . .				2,161,578
Capital outlay . . . . .				1,810,863
Payments in lieu of taxes . . . . .				889,050
Grants and entitlements not restricted to specific programs . . . . .				16,653,216
Investment earnings . . . . .				217,996
Increase in fair value of investments . . . . .				32,114
Miscellaneous . . . . .				807,842
Total general revenues . . . . .				77,859,355
Change in net position . . . . .				13,339,863
<b>Net position (deficit) at beginning of year . . . . .</b>				<b>(30,712,344)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (17,372,481)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments . . . . .	\$ 44,473,577	\$ 2,235,833	\$ 6,955,335	\$ 53,664,745
Receivables:				
Property taxes. . . . .	52,791,354	2,057,231	1,738,638	56,587,223
Payment in lieu of taxes . . . . .	372,662	-	-	372,662
Accounts . . . . .	2,615	-	-	2,615
Accrued interest . . . . .	74,060	-	-	74,060
Interfund loans . . . . .	281,000	-	-	281,000
Intergovernmental. . . . .	29,605	-	639,199	668,804
Materials and supplies inventory. . . . .	116,375	-	5,669	122,044
Inventory held for resale. . . . .	9,392	-	20,895	30,287
Total assets . . . . .	<u>\$ 98,150,640</u>	<u>\$ 4,293,064</u>	<u>\$ 9,359,736</u>	<u>\$ 111,803,440</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 2,243,612	\$ -	\$ 573,091	\$ 2,816,703
Accrued wages and benefits payable . . . . .	5,276,309	-	45,461	5,321,770
Compensated absences payable . . . . .	387,707	-	12,519	400,226
Intergovernmental payable . . . . .	65,058	-	646	65,704
Pension and postemployment benefits payable . . . . .	1,094,784	-	6,519	1,101,303
Interfund loans payable. . . . .	-	-	281,000	281,000
Unearned revenue. . . . .	1,600	-	-	1,600
Total liabilities. . . . .	<u>9,069,070</u>	<u>-</u>	<u>919,236</u>	<u>9,988,306</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	35,916,101	1,336,194	1,201,871	38,454,166
Payment in lieu of taxes levied for the next fiscal year. . . . .	372,662	-	-	372,662
Delinquent property tax revenue not available. . . . .	1,950,644	76,015	64,243	2,090,902
Intergovernmental revenue not available. . . . .	148	-	4,411	4,559
Accrued interest not available. . . . .	50,641	-	-	50,641
Total deferred inflows of resources . . . . .	<u>38,290,196</u>	<u>1,412,209</u>	<u>1,270,525</u>	<u>40,972,930</u>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory. . . . .	116,375	-	5,669	122,044
Restricted:				
Debt service . . . . .	-	2,880,855	-	2,880,855
Capital improvements . . . . .	-	-	6,168,890	6,168,890
Food service operations . . . . .	-	-	51,156	51,156
Non-public schools . . . . .	-	-	46,153	46,153
Special education . . . . .	-	-	412,683	412,683
Targeted academic assistance . . . . .	-	-	169,732	169,732
Other purposes. . . . .	-	-	309,048	309,048
Extracurricular . . . . .	-	-	6,644	6,644
Assigned:				
Student instruction . . . . .	657,308	-	-	657,308
Student and staff support. . . . .	1,528,480	-	-	1,528,480
Extracurricular activities . . . . .	22,001	-	-	22,001
Facilities acquisition and construction . . . . .	501,034	-	-	501,034
School supplies . . . . .	6,932,345	-	-	6,932,345
Other purposes. . . . .	609,217	-	-	609,217
Unassigned . . . . .	40,424,614	-	-	40,424,614
Total fund balances . . . . .	<u>50,791,374</u>	<u>2,880,855</u>	<u>7,169,975</u>	<u>60,842,204</u>
Total liabilities, deferred inflows and fund balances . . . . .	<u>\$ 98,150,640</u>	<u>\$ 4,293,064</u>	<u>\$ 9,359,736</u>	<u>\$ 111,803,440</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016

<b>Total governmental fund balances</b>		\$	60,842,204
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			35,219,348
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Delinquent property taxes receivable	\$	2,090,902	
Accrued interest receivable		50,641	
Intergovernmental receivable		4,559	
Total		2,146,102	2,146,102
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 on the statement of net position.			438,591
Unamortized premiums on bonds issued are not recognized in the funds.			(275,386)
Unamortized deferred charges on debt refundings are not recognized in the funds.			280,774
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(27,836)
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - Pension		9,898,195	
Deferred inflows - Pension		(9,528,831)	
Net pension liability		(100,232,468)	
Total		(99,863,104)	(99,863,104)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(6,623,588)	
General obligation notes		(1,535,000)	
Compensated absences		(7,974,586)	
Total		(16,133,174)	(16,133,174)
<b>Net position of governmental activities</b>		\$	(17,372,481)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 55,078,333	\$ 2,151,307	\$ 1,803,643	\$ 59,033,283
Payment in lieu of taxes . . . . .	366,454	-	522,596	889,050
Tuition. . . . .	810,220	-	-	810,220
Earnings on investments . . . . .	187,466	-	636	188,102
Increase in fair value of investments. . . . .	32,114	-	-	32,114
Charges for services . . . . .	-	-	1,375,791	1,375,791
Extracurricular. . . . .	370	-	248,699	249,069
Classroom materials and fees . . . . .	200,435	-	-	200,435
Rental income . . . . .	185,196	-	-	185,196
Contributions and donations . . . . .	59,508	-	4,040	63,548
Contract services. . . . .	-	-	11,666	11,666
Other local revenues . . . . .	1,096,913	-	3,479	1,100,392
Intergovernmental - state . . . . .	16,722,253	207,893	503,518	17,433,664
Intergovernmental - federal . . . . .	-	-	2,175,276	2,175,276
Total revenues . . . . .	<u>74,739,262</u>	<u>2,359,200</u>	<u>6,649,344</u>	<u>83,747,806</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular. . . . .	30,365,808	-	379,064	30,744,872
Special . . . . .	7,746,757	-	59,698	7,806,455
Vocational . . . . .	394,174	-	-	394,174
Other . . . . .	174,203	-	366,092	540,295
Support services:				
Pupil . . . . .	3,089,292	-	848,499	3,937,791
Instructional staff . . . . .	1,978,460	-	85,579	2,064,039
Board of education . . . . .	36,785	-	-	36,785
Administration . . . . .	4,048,607	-	-	4,048,607
Fiscal . . . . .	1,597,215	28,583	-	1,625,798
Business. . . . .	1,551,718	-	-	1,551,718
Operations and maintenance . . . . .	7,371,980	-	-	7,371,980
Pupil transportation . . . . .	3,391,541	-	-	3,391,541
Central . . . . .	795,359	-	-	795,359
Operation of non-instructional services:				
Food service operations. . . . .	-	-	1,690,637	1,690,637
Other non-instructional services . . . . .	152,289	-	331,017	483,306
Extracurricular activities . . . . .	1,527,099	-	258,775	1,785,874
Facilities acquisition and construction. . . . .	1,873,888	-	1,520,339	3,394,227
Debt service:				
Principal retirement. . . . .	20,323	1,550,000	-	1,570,323
Interest and fiscal charges . . . . .	660	246,864	-	247,524
Bond issuance costs . . . . .	-	52,750	-	52,750
Note issuance costs. . . . .	-	20,457	-	20,457
Total expenditures . . . . .	<u>66,116,158</u>	<u>1,898,654</u>	<u>5,539,700</u>	<u>73,554,512</u>
Excess of revenues over expenditures . . . . .	<u>8,623,104</u>	<u>460,546</u>	<u>1,109,644</u>	<u>10,193,294</u>
<b>Other financing sources:</b>				
Issuance of refunding bonds. . . . .	-	2,405,000	-	2,405,000
Issuance of refunding notes . . . . .	-	1,535,000	-	1,535,000
Payment to refunding bond escrow agent . . . . .	-	(4,124,205)	-	(4,124,205)
Transfers in. . . . .	-	-	100,000	100,000
Transfers (out) . . . . .	(100,000)	-	-	(100,000)
Total other financing sources . . . . .	<u>(100,000)</u>	<u>(184,205)</u>	<u>100,000</u>	<u>(184,205)</u>
Net change in fund balances . . . . .	8,523,104	276,341	1,209,644	10,009,089
<b>Fund balances at beginning of year. . . . .</b>	<u>42,268,270</u>	<u>2,604,514</u>	<u>5,960,331</u>	<u>50,833,115</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 50,791,374</u>	<u>\$ 2,880,855</u>	<u>\$ 7,169,975</u>	<u>\$ 60,842,204</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

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

<b>Net change in fund balances - total governmental funds</b>	\$	10,009,089
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 3,945,020	
Current year depreciation	(2,210,817)	
Total		1,734,203
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(1,300)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property tax revenue	225,854	
Interest revenue	30,530	
Intergovernmental	(608,006)	
Total		(351,622)
Repayment of bond and capital lease principal is an expenditure in the funds, the repayment reduces long-term liabilities on the statement of net position.		
Principal payments during the year were:		
Bonds	1,550,000	
Capital leases	20,323	
Total		1,570,323
Issuance of refunding bonds and notes are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as revenue as they increase liabilities on the statement of net position.		
Bonds	(2,405,000)	
Notes	(1,535,000)	
Total		(3,940,000)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the fiscal year:		
Bonds refunded	3,940,000	
Deferred charges on debt refundings	184,205	
Total		4,124,205
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	10,168	
Accreted interest on capital appreciation bonds	(84,930)	
Amortization of bond premiums	74,070	
Amortization of deferred charges on debt refundings	(71,593)	
Total		(72,285)
Contractually required pension contributions are reported as expenditures in the governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		
		5,878,076
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(4,523,463)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		24,509
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(1,111,872)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>13,339,863</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 50,445,590	\$ 50,445,590	\$ 52,097,344	\$ 1,651,754
Payment in lieu of taxes. . . . .	915,081	915,081	810,920	(104,161)
Tuition. . . . .	413,524	413,524	366,454	(47,070)
Earnings on investments . . . . .	205,336	205,336	181,963	(23,373)
Extracurricular. . . . .	418	418	370	(48)
Classroom materials and fees . . . . .	147,466	147,466	130,680	(16,786)
Rental income . . . . .	226,353	226,353	200,588	(25,765)
Other local revenues . . . . .	786,406	786,406	696,891	(89,515)
Intergovernmental - state . . . . .	18,882,867	18,882,867	16,733,478	(2,149,389)
Total revenues . . . . .	<u>72,023,041</u>	<u>72,023,041</u>	<u>71,218,688</u>	<u>(804,353)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	31,356,853	35,784,493	31,039,893	4,744,600
Special. . . . .	7,742,233	8,849,519	7,762,609	1,086,910
Vocational. . . . .	367,773	420,732	371,266	49,466
Other. . . . .	181,740	207,910	183,466	24,444
Support services:				
Pupil. . . . .	3,117,752	3,562,625	3,118,774	443,851
Instructional staff . . . . .	2,091,662	2,380,395	2,024,157	356,238
Board of education . . . . .	57,506	64,526	49,210	15,316
Administration. . . . .	4,089,783	4,673,294	4,090,695	582,599
Fiscal . . . . .	1,682,279	1,920,321	1,668,791	251,530
Business . . . . .	2,289,933	2,574,428	1,994,448	579,980
Operations and maintenance. . . . .	8,493,398	9,609,839	7,826,792	1,783,047
Pupil transportation . . . . .	3,941,220	4,468,873	3,699,100	769,773
Central. . . . .	1,044,705	1,164,845	842,242	322,603
Extracurricular activities. . . . .	1,414,317	1,614,847	1,405,814	209,033
Facilities acquisition and construction . . . . .	5,430,299	5,950,458	3,646,566	2,303,892
Total expenditures . . . . .	<u>73,301,453</u>	<u>83,247,105</u>	<u>69,723,823</u>	<u>13,523,282</u>
Excess of revenues over (under) expenditures . . . . .	<u>(1,278,412)</u>	<u>(11,224,064)</u>	<u>1,494,865</u>	<u>12,718,929</u>
<b>Other financing sources (uses):</b>				
Transfers (out). . . . .	(99,059)	(113,324)	(100,000)	13,324
Advances in. . . . .	84,634	84,634	75,000	(9,634)
Advances (out) . . . . .	(278,356)	(318,439)	(281,000)	37,439
Sale of capital assets . . . . .	106,197	106,197	94,109	(12,088)
Total other financing sources (uses) . . . . .	<u>(186,584)</u>	<u>(240,932)</u>	<u>(211,891)</u>	<u>29,041</u>
Net change in fund balance . . . . .	(1,464,996)	(11,464,996)	1,282,974	12,747,970
<b>Fund balance at beginning of year . . . . .</b>	33,066,615	33,066,615	33,066,615	-
<b>Prior year encumbrances appropriated . . . . .</b>	4,233,608	4,233,608	4,233,608	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 35,835,227</u>	<u>\$ 25,835,227</u>	<u>\$ 38,583,197</u>	<u>\$ 12,747,970</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2016

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . .	\$ 1,781,701
Total assets. . . . .	<u>1,781,701</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	22,210
Claims payable . . . . .	<u>1,320,900</u>
Total liabilities . . . . .	<u>1,343,110</u>
<b>Net position:</b>	
Unrestricted. . . . .	<u>438,591</u>
Total net position. . . . .	<u><u>\$ 438,591</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 7,142,762
Total operating revenues . . . . .	<u>7,142,762</u>
<b>Operating expenses:</b>	
Purchased services. . . . .	29,779
Other. . . . .	63,488
Claims . . . . .	<u>8,161,367</u>
Total operating expenses. . . . .	<u>8,254,634</u>
Operating loss / change in net position . . . .	(1,111,872)
<b>Net position at beginning of year. . . . .</b>	<u>1,550,463</u>
<b>Net position at end of year . . . . .</b>	<u><u>\$ 438,591</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 7,142,762
Cash payments for purchased services . . . . .	(30,417)
Cash payments for claims . . . . .	(8,092,267)
Cash payments for other expenses . . . . .	(63,488)
	(1,043,410)
Net cash (used in) operating activities . . . . .	(1,043,410)
Net decrease in cash and cash equivalents . . . . .	(1,043,410)
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>2,825,111</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ 1,781,701</u></b>
 <b>Reconciliation of operating loss to net cash (used in) operating activities:</b>	
Operating loss . . . . .	\$ (1,111,872)
Changes in assets and liabilities:	
Decrease in accounts payable . . . . .	(638)
Increase in claims payable . . . . .	69,100
	69,100
Net cash (used in) operating activities . . . . .	<b><u>\$ (1,043,410)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2016

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and investments . . .	\$ 281,170
Total assets. . . . .	<u>\$ 281,170</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 13,432
Due to students. . . . .	<u>267,738</u>
Total liabilities . . . . .	<u>\$ 281,170</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Solon City School District (the “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 District operates under a locally elected five-member Board of Education and provides educational services as mandated by State and/or federal agencies. The District operates four elementary schools (K-4), one lower middle school (5-6), one upper middle school (7-8), and one high school (9-12). The Board oversees the operations of the District’s seven instructional facilities. The District employs 321 non-certified, 341 certified and 17 administrative employees to provide services to approximately 4,600 students and community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District’s accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The District is associated with a jointly governed organization and a public entity risk pool.

*JOINTLY GOVERNED ORGANIZATION*

The Ohio Schools' Council Association

The Ohio Schools' Council Association (Council) is a jointly governed organization among 201 school districts, educational service centers, joint vocational districts, and Developmental Disabilities boards in 33 Ohio counties. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools' Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

The District participates in the natural gas purchase program. This program allows the District to purchase natural gas at reduced rates. Compass Energy has been selected as the supplier and program manager. There are currently 151 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). School districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The District participates in the Council's electric purchase program. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for in the program for either a two-year period or an eight and one-half year period depending upon electric generation area. FirstEnergy Solutions has been selected as the supplier for the program. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to the actual usage for the year and any necessary adjustments are made.

*PUBLIC ENTITY RISK POOL*

The Ohio Schools' Council Workers' Compensation Group Rating Program (the "Plan") is an insurance purchasing pool (See Note 11.C.). The plan is intended to reduce premiums for the participants. The Workers' Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

*GOVERNMENTAL FUNDS*

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 plus deferred outflows or resources and liabilities plus deferred inflows of resources is reported as fund balance.

The following are the District's major governmental funds:

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Debt service fund* - The debt service fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

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

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds. The District has only an internal service fund.

*Internal Service Fund* - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The internal service fund of the District accounts for a self-insurance program which provides medical, dental and vision benefits to employees.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and for collections made on behalf of and for distribution to the Ohio High School Athletic Association.

**C. Basis of Presentation**

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District. 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 District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a 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, interest, tuition, grants, student fees and rentals.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will 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 District, see Note 13 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report 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 District, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 13 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported as donated commodities revenue with a like amount reported as materials and supplies expense in the governmental fund 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 governmental funds.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**E. Budgetary Process**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts 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 amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

**F. Cash and Investments**

To improve cash management, cash received by the District, other than cash reported in segregated accounts, is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

During fiscal year 2016, investments were limited to Federal National Mortgage Association (FNMA) securities, Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) securities, municipal securities, negotiable certificates of deposit (negotiable CD's), corporate notes, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices.

The School District's 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 rates. 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.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$187,466 which includes \$41,415 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government-wide statements and the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, school supplies held for resale, donated food and purchased food.

**H. Capital Assets**

All capital assets of the District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

Description	Governmental Activities Estimated Lives
Land improvements	10 - 30 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Buses and other vehicles	8 years

**I. Interfund Balances**

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

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences 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. Bonds and other long-term obligations are recognized as a liability in the fund financial statements when due.

**L. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally 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. For the District, nonspendable fund balance at year-end consisted of materials and supplies inventory.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**N. Non-Public Schools**

Within the District boundaries are various non-public schools. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District, as directed by the non-public school. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund (a nonmajor governmental fund) for financial reporting purposes.

**O. Estimates**

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

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenue.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**Q. Interfund Activity**

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

**R. Pensions**

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2016, the District had no extraordinary or special items.

**T. Issuance Costs/Bond Premiums and Discounts and Accounting Gain or Loss on Debt Refunding**

On the governmental fund financial statements, issuance costs, bond premiums, bond discounts, and deferred charges from debt refunding are recognized in the current period.

On the government-wide financial statements, issuance costs are recognized in the current period and are not amortized. Bond premiums and discounts are amortized over the term of the bonds using the straight-line method. Unamortized bond premiums are presented as an addition to the face amount of the bonds reported on the statement of net position. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statement of net position. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**U. Fair Value Measurements**

The 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.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

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 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 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 one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. 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 year end, the District had \$1,130 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

**B. Deposits with Financial Institutions**

At June 30, 2016, the carrying amount of all District deposits was \$6,012,677. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$3,309,898 of the District's bank balance of \$3,809,898 was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Deposit Insurance Corporation.

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2016, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater Than 24 months
FHLB	\$ 400,012	\$ -	\$ -	\$ -	\$ 400,012	\$ -
FNMA	500,110	-	-	-	-	500,110
Municipal securities	769,429	-	514,970	254,459	-	-
FHLMC	20,331,526	329,726	-	20,001,800	-	-
Negotiable CD's	16,737,372	1,326,473	2,368,822	4,657,590	3,947,216	4,437,271
Corporate note	105,639	-	-	105,639	-	-
U.S. government money market mutual fund	349,649	349,649	-	-	-	-
STAR Ohio	<u>10,520,072</u>	<u>10,520,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 49,713,809</u>	<u>\$ 12,525,920</u>	<u>\$ 2,883,792</u>	<u>\$ 25,019,488</u>	<u>\$ 4,347,228</u>	<u>\$ 4,937,381</u>

The weighted average maturity of investments is 1.10 years.

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).

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio and the U.S. government money market mutual fund an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. The federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Corporate note was rated Aaa by Standard & Poor's. The municipal securities were rated between AA and AAA by Standard & Poor's. The negotiable CD's were fully covered by the FDIC. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities, municipal securities and corporate note are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 400,012	0.80%
FNMA	500,110	1.01%
Municipal securities	769,429	1.55%
FHLMC	20,331,526	40.90%
Negotiable CD's	16,737,372	33.67%
Corporate note	105,639	0.21%
U.S. government money market mutual fund	349,649	0.70%
STAR Ohio	<u>10,520,072</u>	<u>21.16%</u>
Total	<u>\$ 49,713,809</u>	<u>100.00%</u>

**D. Reconciliation of cash and investments to the statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,012,677
Investments	49,713,809
Cash on hand	<u>1,130</u>
Total	<u>\$ 55,727,616</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 55,446,446
Agency fund	<u>281,170</u>
Total	<u>\$ 55,727,616</u>

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund loans receivable/payable consisted of the following at June 30, 2016, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 281,000

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund loans receivable/payable between governmental funds are eliminated for reporting on the statement of net position.

- B. Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 100,000</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on 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 is currently assessed at varying percentages of true value.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 6 - PROPERTY TAXES - (Continued)**

The District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the 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 as an advance at June 30, 2016 was \$14,924,609 in the general fund, \$645,022 in the debt service fund and \$472,524 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$11,943,620 in the general fund, \$490,050 in the debt service fund and \$380,712 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal 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.

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

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 1,113,168,690	97.69	\$ 1,164,553,880	97.37
Public utility personal	<u>26,319,330</u>	<u>2.31</u>	<u>31,503,900</u>	<u>2.63</u>
<b>Total</b>	<u>\$ 1,139,488,020</u>	<u>100.00</u>	<u>\$ 1,196,057,780</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 82.20		\$ 82.20	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2016 consisted of taxes, accounts (billings for user charged services and student fees), 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.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 7 – RECEIVABLES - (Continued)**

Principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Property taxes	\$ 56,587,223
Payments in lieu of taxes	372,662
Accounts	2,615
Intergovernmental	668,804
Accrued interest	<u>74,060</u>
Total governmental activities	<u>\$ 57,705,364</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2013, the District entered into a capital lease agreement for copiers. This lease meets the criteria of a capital lease as defined by GASB, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balances - general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$90,570, which represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016 was \$90,570 leaving a current book value of \$0.

During fiscal year 2016, the District made the final lease payments on the capital lease obligation. Principal payments in the 2016 fiscal year totaled \$20,323. This amount is reflected as debt service principal retirement in the general fund and as a reduction to the long-term liabilities reported on the statement of net position. There is no remaining capital lease obligation at June 30, 2016.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 9 - CAPITAL ASSETS**

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

	Balance			Balance
<b>Governmental activities:</b>	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,672,260	\$ -	\$ -	\$ 3,672,260
Construction in progress	<u>1,142,459</u>	<u>1,879,540</u>	<u>(1,343,975)</u>	<u>1,678,024</u>
Total capital assets, not being depreciated	<u>4,814,719</u>	<u>1,879,540</u>	<u>(1,343,975)</u>	<u>5,350,284</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	5,547,657	14,679	-	5,562,336
Buildings and improvements	57,148,939	1,538,071	-	58,687,010
Furniture and equipment	9,293,042	1,320,141	-	10,613,183
Buses and other vehicles	<u>4,987,068</u>	<u>536,564</u>	<u>(13,000)</u>	<u>5,510,632</u>
Total capital assets, being depreciated	<u>76,976,706</u>	<u>3,409,455</u>	<u>(13,000)</u>	<u>80,373,161</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(3,526,542)	(214,540)	-	(3,741,082)
Buildings and improvements	(35,125,948)	(1,178,895)	-	(36,304,843)
Furniture and equipment	(6,602,085)	(493,125)	-	(7,095,210)
Buses and other vehicles	<u>(3,050,405)</u>	<u>(324,257)</u>	<u>11,700</u>	<u>(3,362,962)</u>
Total accumulated depreciation	<u>(48,304,980)</u>	<u>(2,210,817)</u>	<u>11,700</u>	<u>(50,504,097)</u>
Total capital assets, being depreciated, net	<u>28,671,726</u>	<u>1,198,638</u>	<u>(1,300)</u>	<u>29,869,064</u>
Governmental activities capital assets, net	<u>\$ 33,486,445</u>	<u>\$ 3,078,178</u>	<u>\$ (1,345,275)</u>	<u>\$ 35,219,348</u>

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**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 9 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,537,875
Special	19,470
Vocational	8,593
Support Services:	
Pupil	47,650
Instructional staff	61,218
Administration	14,259
Fiscal	927
Business	696
Operations and maintenance of plant	23,609
Pupil transportation	248,720
Central	696
Operation of non-instructional services:	
Other non-instructional services	1,309
Food service operations	101,410
Extracurricular activities	<u>144,385</u>
Total depreciation expense	<u>\$ 2,210,817</u>

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**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. The changes in the District's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<b>Governmental activities:</b>					
General obligation bonds:					
Series 1997 \$6,000,000 School Improvement					
Current interest 3.6 - 5.5%	\$ 1,155,000	\$ -	\$ (555,000)	\$ 600,000	\$ 600,000
Series 2005 \$4,000,000 School Improvement					
Current interest 3.2 - 4.0%	2,590,000	-	(2,590,000)	-	-
Series 2009 \$4,020,000 Refunding:					
Current interest 2.0 - 4.125%	2,465,000	-	(1,995,000)	470,000	470,000
Capital appreciation bonds	30,000	-	-	30,000	-
Accreted interest	178,658	84,930	-	263,588	-
Series 2012 \$3,550,000 Refunding:					
Current interest - 1.0 - 3.75%	3,205,000	-	(315,000)	2,890,000	325,000
Series 2015, Refunding 2.13%					
Current interest 2.13%	-	2,405,000	(35,000)	2,370,000	215,000
Total G.O. bonds	<u>9,623,658</u>	<u>2,489,930</u>	<u>(5,490,000)</u>	<u>6,623,588</u>	<u>1,610,000</u>
General obligation notes:					
Series 2015, Refunding 0.85%	-	1,535,000	-	1,535,000	1,535,000
Net pension liability:					
STRS	73,948,589	6,937,203	-	80,885,792	-
SERS	<u>17,304,528</u>	<u>2,042,148</u>	-	<u>19,346,676</u>	-
Total	<u>91,253,117</u>	<u>8,979,351</u>	-	<u>100,232,468</u>	-
Other long-term obligations:					
Capital lease obligations	20,323	-	(20,323)	-	-
Compensated absences payable	<u>8,569,607</u>	<u>993,827</u>	<u>(1,188,622)</u>	<u>8,374,812</u>	<u>1,059,349</u>
Total governmental activities					
long-term obligations	109,466,705	<u>\$ 13,998,108</u>	<u>\$ (6,698,945)</u>	116,765,868	<u>\$ 4,204,349</u>
Add: unamortized premium	<u>541,295</u>			<u>275,386</u>	
Total on statement of net position	<u>\$ 110,008,000</u>			<u>\$117,041,254</u>	

Compensated absences will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund.

See Note 13 for further information on the District's net pension liability. The District pays obligations related to employee compensation from the fund benefitting from their service.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

All general obligation bonds and notes will be repaid from property taxes in the debt service fund.

The District's capital lease obligations are detailed on Note 8.

Series 1997 School Improvement General Obligation Bonds

On February 15, 1997, the District issued \$6,000,000 in general obligation bonds with interest rates ranging from 3.6 to 5.5 percent. These bonds were issued to finance various construction and renovation projects undertaken by the District. The final stated maturity date on the bond issue is December 1, 2016.

Series 2005 School Improvement General Obligation Bonds

On December 22, 2005 the District issued \$4,000,000 of school improvement bonds for the purpose of renovating, remodeling, and adding to, furnishing, equipping and otherwise improving school facilities and acquiring and improving District sites. During fiscal year 2016, the District made a principal payment of \$185,000 and advance refunded the remaining \$2,405,000 with the issuance of the Series 2015 refunding bonds. The refunded portion of the Series 2005 school improvement bonds are considered defeased (in-substance) and accordingly, has been removed from the statement of net position (see Note 10.B). There is no remaining liability of the Series 2005 bonds at June 30, 2016.

Series 2009 Refunding General Obligation Bonds

On September 3, 2009, the District issued general obligation bonds (Series 2009 refunding bonds) to advance refund the callable portion of the Series 2001 school improvement bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position (see Note 10.B).

The refunding issue is comprised of both current interest bonds, par value \$3,990,000, and capital appreciation bonds par value \$30,000. The interest rates on the current interest bonds range from 2.0 to 4.125 percent. The capital appreciation bonds mature on December 1, 2017 (effective interest rate 36.92 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$490,000. Total accreted interest of \$263,588 has been included in the statement of net position at June 30, 2016.

During fiscal year 2016, the District advance refunded the callable portion of the Series 2009 refunding bonds through the issuance of the Series 2016 refunding notes. The District advance refunded \$1,535,000 of the Series 2009 refunding bonds. The refunded portion of the Series 2009 refunding bonds are considered defeased (in-substance) and accordingly, has been removed from the statement of net position. After the refunding, the remaining portion of the Series 2009 refunding bonds was \$470,000 which is scheduled to mature December 1, 2016.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$374,045. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

Series 2012 Refunding General Obligation Bonds

On July 17, 2013, the District issued general obligation bonds (Series 2012 Refunding Bonds) to advance refund the callable portion of the Series 2003 school improvement bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position (see Note 10.B).

The refunding issue is comprised of current interest bonds, par value \$3,550,000. The interest rates on the current interest bonds range from 1.0 to 3.75 percent. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2023.

The reacquisition price exceeded the net carrying amount of the old debt by \$242,276. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Series 2015 Refunding General Obligation Bonds

On September 3, 2015, the District issued general obligation bonds (Series 2015 refunding bonds) to advance refund the callable portion of the Series 2005 school improvement bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position (see Note 10.B).

The refunding issue is comprised of current interest bonds, par value \$2,405,000. The interest rate on the current interest bonds are 2.13 percent. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2025.

The reacquisition price exceeded the net carrying amount of the old debt by \$8,116. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Series 2016 Refunding General Obligation Notes

On May 5, 2016, the District issued general obligation notes (Series 2016 refunding notes) to advance refund the callable portion of the Series 2009 refunding bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position (see Note 10.B).

The refunding issue is comprised of a note payable in the amount of \$1,535,000. The interest rate on the note is 0.85 percent and the maturity date is May 4, 2017.

The reacquisition price exceeded the net carrying amount of the old debt by \$97,821. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which shorter than the life of the refunded debt.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the District's general obligation bonds:

Fiscal Year Ending June 30	Current Interest General Obligation Bonds			Capital Appreciation General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 1,610,000	\$ 174,942	\$ 1,784,942	\$ -	\$ -	\$ -
2018	545,000	126,905	671,905	30,000	460,000	490,000
2019	570,000	113,488	683,488	-	-	-
2020	585,000	96,171	681,171	-	-	-
2021	600,000	77,940	677,940	-	-	-
2022 - 2026	<u>2,420,000</u>	<u>130,292</u>	<u>2,550,292</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,330,000</u>	<u>\$ 719,738</u>	<u>\$ 7,049,738</u>	<u>\$ 30,000</u>	<u>\$ 460,000</u>	<u>\$ 490,000</u>

**B. Defeased Debt**

In fiscal year 2010, the District issued Series 2009 refunding bonds to advance refund the callable portion of the Series 2001 school improvement bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2016, the balance of the Series 2001 defeased debt outstanding, but removed from the financial statements, amounted to \$2,460,000.

In fiscal year 2013, the District issued Series 2012 refunding bonds to advance refund the callable portion of the Series 2003 school improvement bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2016, the balance of the Series 2003 defeased debt outstanding, but removed from the financial statements, amounted to \$2,960,000.

In fiscal year 2016, the District issued Series 2015 refunding bonds to advance refund the callable portion of the Series 2005 school improvement bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2016, the balance of the Series 2005 defeased debt outstanding, but removed from the financial statements, amounted to \$2,405,000.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

In fiscal year 2016, the District issued Series 2016 refunding notes to advance refund the callable portion of the Series 2009 refunding bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2016, the balance of the Series 2009 defeased debt outstanding, but removed from the financial statements, amounted to \$1,535,000.

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$104,166,055, including available funds of \$2,880,855, and an unvoted debt margin of \$1,196,058.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During 2016, the District contracted with the Ohio School Plan for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>
Property Coverage:	
Blanket buildings and contents	\$ 195,591,582
Inland Marine:	
School band uniforms and equipment	100,000
Athletic and other equipment	100,000
Musical instruments	100,000
Audio visual equipment	100,000
Fine arts	50,000
Signs	10,000
Shop dwellings	Included Above

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 11 - RISK MANAGEMENT - (Continued)**

<u>Type of Coverage</u>	<u>Coverage</u>
Commercial Crime Coverage:	
Theft, disappearance and destruction	\$ 25,000
Robbery and safe burglary	25,000
Computer fraud	25,000
Forgery or alterations	25,000
Employee dishonesty	100,000
Flood Coverage	1,000,000
Earthquake Coverage	1,000,000
Commercial Computer Coverage:	
Equipment	2,723,077
Extra expense	5,000
Auto Liability	1,000,000
Uninsured Motorist	250,000
Commercial General Liability:	
Each occurrence	1,000,000
Fire damages	500,000
Medical expense limit	10,000
Personal and advertising injury	1,000,000
General aggregate	2,000,000
Products/completed operations aggregate	2,000,000
Employers Stop Gap Liability:	
Bodily injury by accident	1,000,000
Bodily injury by disease	1,000,000
Aggregate limit	1,000,000
School Leaders Errors and Omissions:	
Each wrongful act limit	1,000,000
Aggregate limit	1,000,000
Non-monetary relief defense	100,000
Sexual Misconduct and Molestation Liability:	
Each loss limit	1,000,000
Aggregate limit	1,000,000
Innocent party aggregate defense expense	300,000
Employee Benefits Liability:	
Employee Benefits Injury	
Each employee limit	1,000,000
Aggregate limit	3,000,000
Umbrella	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2015.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Employee Benefits**

The District has elected to contract with Medical Mutual of Ohio as a program administrator to provide medical benefits for employees through a self-insured program. These benefits are accounted for in the internal service fund. An excess coverage insurance (stop loss) policy covers claims in excess of \$250,000 per employee.

The internal service fund pays for the costs of providing claims servicing and claims payment. The premium charged for family and single coverage is \$850 per month for classified employees and certified employees. The benefits that are included in this lump sum premium are medical, dental, vision and life insurance.

The claims liability of \$1,320,900 reported in the internal service fund at June 30, 2016, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The balance of claims payable at June 30, 2016 represents an estimate of the liability for unpaid claims costs provided by Medical Mutual of Ohio.

Changes in the claims liability for the past three fiscal years follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2016	\$ 1,251,800	\$ 8,161,367	\$ (8,092,267)	\$ 1,320,900
2015	1,165,500	7,518,035	(7,431,735)	1,251,800
2014	1,230,400	6,212,183	(6,277,083)	1,165,500

**C. Workers' Compensation Program**

For fiscal year 2016, the District participated in the Ohio Schools' Council Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The Workers' Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its Workers' Compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This equity pooling arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. Each year, the District pays an enrollment fee to the Plan to cover costs of administering the program

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement or separation with ten years of service credit, payment is made to classified employees for 100 percent of the total sick leave accumulation, up to a maximum accumulation of 100 days, and for one-fourth of the remaining accumulated sick leave with a maximum accumulation of 150 days for employees that retire within two years of retirement eligibility. Upon retirement, payment is made to teachers and administrators for 100 percent of total sick leave accumulation, with a maximum accumulation of 75 days and 100 percent of 100 days for administrators.

**NOTE 13 - 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.

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

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

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

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 *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Plan Description - School Employees Retirement System (SERS)***

Plan Description –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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$1,499,755 for fiscal year 2016. Of this amount, \$6,519 is reported as pension and postemployment benefits payable.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description –District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. 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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS 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.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$4,378,321 for fiscal year 2016. Of this amount, \$699,284 is reported as pension and postemployment benefits 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 District's proportion of the net pension liability was based on the 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 19,346,676	\$ 80,885,792	\$ 100,232,468
Proportion of the net pension liability	0.33905270%	0.29267132%	
Pension expense	\$ 1,182,149	\$ 3,341,314	\$ 4,523,463

At June 30, 2016, the 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>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 312,813	\$ 3,707,306	\$ 4,020,119
District contributions subsequent to the measurement date	<u>1,499,755</u>	<u>4,378,321</u>	<u>5,878,076</u>
Total deferred outflows of resources	<u>\$ 1,812,568</u>	<u>\$ 8,085,627</u>	<u>\$ 9,898,195</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 658,701	\$ 6,200,286	\$ 6,858,987
Changes in proportionate share and difference between District contributions and proportionate share of contributions	<u>110,091</u>	<u>2,559,753</u>	<u>2,669,844</u>
Total deferred inflows of resources	<u>\$ 768,792</u>	<u>\$ 8,760,039</u>	<u>\$ 9,528,831</u>

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

\$5,878,076 reported as deferred outflows of resources related to pension resulting from 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 Ending June 30:	SERS	STRS	Total
2017	\$ (273,915)	\$ (2,073,736)	\$ (2,347,651)
2018	(273,915)	(2,073,736)	(2,347,651)
2019	(273,913)	(2,073,737)	(2,347,650)
2020	365,764	1,168,476	1,534,240
Total	\$ (455,979)	\$ (5,052,733)	\$ (5,508,712)

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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:

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 26,826,887	\$ 19,346,676	\$ 13,047,721

***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.

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:

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 112,356,467	\$ 80,885,792	\$ 54,272,643

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** - The 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](http://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, number of qualified years of service, Medicare eligibility and retirement status.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

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, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$169,929.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$169,929, \$247,733, and \$170,859, respectively. The amount for fiscal year 2016 will be paid in fiscal year 2017 and has been recorded as pension and postemployment benefits payable at June 30, 2016. The full amount has been contributed for fiscal years 2015 and 2014.

**B. State Teachers Retirement System**

Plan Description – The 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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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 years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$334,231, respectively. No contributions were required for fiscal years 2016 and 2015. The full amount has been contributed for fiscal year 2014.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While 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 is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 1,282,974
Net adjustment for revenue accruals	3,082,865
Net adjustment for expenditure accruals	(335,640)
Net adjustment for other sources/uses	111,891
Funds budgeted elsewhere **	(256,644)
Adjustment for encumbrances	4,637,658
GAAP basis	<u>\$ 8,523,104</u>

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is not party to litigation that, in the opinion of management, would have a material effect on the financial condition of the District.

**C. Foundation Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the 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 District.

**NOTE 17 - SET-ASIDES**

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	795,886
Current year offsets	<u>(795,886)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 18 - PAYMENT IN LIEU OF TAXES**

**A. Foreign Trade Zone and Community Reinvestment Area Tax Abatements**

In March 2004, Swagelok Company, located within the District's limits, applied for and received an activated permanent General Purpose Foreign Trade Zone and a Community Reinvestment Area Tax Abatement in connection with a proposed expansion project. In connection with the above, the District entered into a Revenue Sharing Agreement with the Village of Glenwillow to compensate the District for a loss of anticipated revenues resulting from the Community Reinvestment Area and Foreign Trade Zone tax exemptions. During fiscal year 2016, the District received \$522,596 in revenue as a result of the Revenue Sharing Agreement with the Village. This revenue is reported in the permanent improvement fund.

**B. Tax Increment Financing Payments**

The District receives TIF payments through the tax settlement process. During fiscal year 2016, the District received \$366,454 in TIF payments in the general fund.

**NOTE 19 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances (less amounts encumbered in payables) in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 2,629,927
Nonmajor governmental	<u>422,526</u>
Total	<u><u>\$ 3,052,453</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.33905270%	0.34192300%	0.34192300%
District's proportionate share of the net pension liability	\$ 19,346,676	\$ 17,304,528	\$ 20,333,063
District's covered-employee payroll	\$ 10,207,253	\$ 9,935,599	\$ 9,605,448
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	211.68%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.29267132%	0.30402166%	0.30402166%
District's proportionate share of the net pension liability	\$ 80,885,792	\$ 73,948,589	\$ 88,087,076
District's covered-employee payroll	\$ 30,858,793	\$ 31,062,615	\$ 32,557,777
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	262.12%	238.06%	270.56%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 1,499,755	\$ 1,345,316	\$ 1,377,074	\$ 1,329,394	\$ 1,281,853	\$ 1,209,568	\$ 1,328,939	\$ 946,664	\$ 1,036,197	\$ 922,423
Contributions in relation to the contractually required contribution	<u>(1,499,755)</u>	<u>(1,345,316)</u>	<u>(1,377,074)</u>	<u>(1,329,394)</u>	<u>(1,281,853)</u>	<u>(1,209,568)</u>	<u>(1,328,939)</u>	<u>(946,664)</u>	<u>(1,036,197)</u>	<u>(922,423)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
District's covered-employee payroll	\$ 10,712,536	\$ 10,207,253	\$ 9,935,599	\$ 9,605,448	\$ 9,530,506	\$ 9,622,657	\$ 9,814,911	\$ 9,620,569	\$ 10,551,904	\$ 8,636,919
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 4,378,321	\$ 4,320,231	\$ 4,038,140	\$ 4,232,511	\$ 4,097,199	\$ 4,388,860	\$ 4,391,250	\$ 4,323,710	\$ 4,100,399	\$ 3,908,976
Contributions in relation to the contractually required contribution	<u>(4,378,321)</u>	<u>(4,320,231)</u>	<u>(4,038,140)</u>	<u>(4,232,511)</u>	<u>(4,097,199)</u>	<u>(4,388,860)</u>	<u>(4,391,250)</u>	<u>(4,323,710)</u>	<u>(4,100,399)</u>	<u>(3,908,976)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered-employee payroll	\$ 31,273,721	\$ 30,858,793	\$ 31,062,615	\$ 32,557,777	\$ 31,516,915	\$ 33,760,462	\$ 33,778,846	\$ 33,259,308	\$ 31,541,531	\$ 30,069,046
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

**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 years 2014-2016.

*Changes in assumptions*: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. 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 years 2014-2016.

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

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

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

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	10.555	N/A	\$ -	\$ 67,453	\$ -	\$ 67,453
Cash Assistance:						
National School Lunch Program	10.555	LLP42016	184,427	-	184,427	-
Total Child Nutrition Cluster			184,427	67,453	184,427	67,453
<b>Total U.S. Department of Agriculture</b>			<b>184,427</b>	<b>67,453</b>	<b>184,427</b>	<b>67,453</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through Ohio Department of Education:</i>						
Title I, Part A Cluster:						
Title I Grants to Local Educational Agencies - 2015	84.010	C1-S1 2015	206,025	-	206,025	-
Title I Grants to Local Educational Agencies - 2016	84.010	C1-S1 2016	162,192	-	162,192	-
Total Title I, Part A Cluster			368,217	-	368,217	-
Special Education Cluster (IDEA):						
Special Education - Grants to States (IDEA, Part B) - 2015	84.027	6B-SF 2015	364,892	-	410,948	-
Special Education - Grants to States (IDEA, Part B) - 2016	84.027	6B-SF 2016	485,429	-	485,429	-
Total Special Education - Grants to States (IDEA, Part B)			850,321	-	896,377	-
Special Education - Preschool Grants (IDEA Preschool) - 2015	84.173	PG-S1 2015	12,659	-	12,659	-
Special Education - Preschool Grants (IDEA Preschool) - 2016	84.173	PG-S1 2016	12,659	-	12,659	-
Total Special Education Preschool Grants (IDEA Preschool)			25,318	-	25,318	-
Total Special Education Cluster			875,639	-	921,695	-
English Language Acquisition Grants - 2015	84.365	T3-S1 2015	19,601	-	20,701	-
English Language Acquisition Grants - 2016	84.365	T3-S1 2016	14,060	-	14,060	-
Total English Language Acquisition Grants			33,661	-	34,761	-
Improving Teacher Quality State Grants -2015	84.367	TR-S1 2015	9,389	-	14,488	-
Improving Teacher Quality State Grants - 2016	84.367	TR-S1 2016	54,736	-	56,159	-
Total Improving Teacher Quality State Grants			64,125	-	70,647	-
<b>Total U.S. Department of Education</b>			<b>1,341,642</b>	<b>-</b>	<b>1,395,320</b>	<b>-</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 1,526,069</b>	<b>\$ 67,453</b>	<b>\$ 1,579,747</b>	<b>\$ 67,453</b>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) includes the federal award activity of **Solon City School District**, Cuyahoga County, Ohio (the 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 District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the 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 District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



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

December 23, 2016

Solon City School District  
Cuyahoga County  
33800 Inwood Road  
Solon, OH 44139

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Solon City School District**, Cuyahoga County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2016.

***Internal Control Over Financial Reporting***

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

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

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



**... "bringing more to the table"**

Tax- Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll  
Litigation Support - Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



***Compliance and Other Matters***

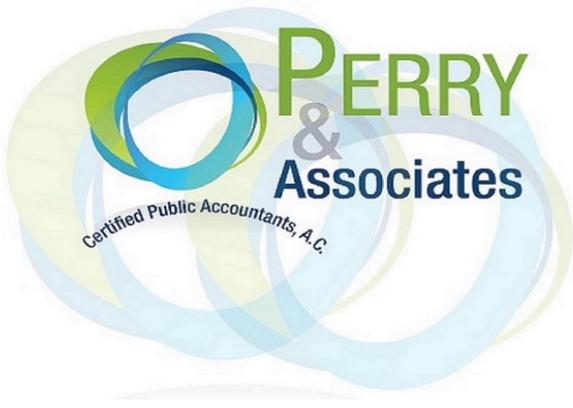
As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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



**Perry and Associates**  
Certified Public Accountants, A.C.  
*Marietta, Ohio*



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

December 23, 2016

Solon City School District  
Cuyahoga County  
33800 Inwood Road  
Solon, OH 44139

To the Board of Education:

***Report on Compliance for the Major Federal Program***

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

***Management's Responsibility***

The District's Management is responsible for complying 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 opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



***...“bringing more to the table”***

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll  
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



***Opinion on the Major Federal Program***

In our opinion, the Solon City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

SCHEDULE OF AUDIT FINDINGS  
2 CFR § 200.515  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster: Special Education – Grants to States (IDEA, Part B) – CFDA #84.027 and Special Education – Preschool Grants (IDEA, Preschool) – CFDA #84.173
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee under 2 CFR § 200.520?</b>	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

None



# Dave Yost • Auditor of State

**SOLON CITY SCHOOL DISTRICT**

**CUYAHOGA 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  
MARCH 9, 2017**