

KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

Audit Report

For the Year Ended June 30, 2017





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Kenton City School District, Hardin County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 23, 2018

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY
AUDIT REPORT
For the Year Ending June 30, 2017**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position-Modified Cash Basis.....	14
Statement of Activities-Modified Cash Basis.....	15
Fund Financial Statements:	
Statement of Assets and Fund Balances - Modified Cash Basis - Governmental Funds.....	16
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Modified Cash Basis-Governmental Funds.....	17
Statement of Receipts, Disbursements and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual - General Fund.....	18
Statement of Fiduciary Net Cash Position - Fiduciary Funds.....	19
Statement of Change in Fiduciary Net Cash Position - Private Purpose Trust Funds.....	20
Notes to the Basic Financial Statements.....	21-46
Schedule of Expenditures of Federal Awards (prepared by management)	47
Notes to the Schedule of Expenditures of Federal Awards (prepared by management).....	48
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	49-50
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the <i>Uniform Guidance</i>	51-52
Schedule of Findings	53-54
Prepared by Management:	
Schedule of Prior Audit Findings.....	55
Corrective Action Plan.....	56

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Charles E. Harris & Associates, Inc
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, Ohio (the District), as of and for the year ended June 30, 2017, 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 the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, Ohio, as of June 30, 2017, and the changes in modified cash basis financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

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

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements.

The Schedule of Expenditures of Federal Awards is presented for the purpose of 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.

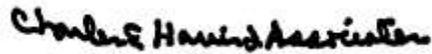
The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of basic financial statements and certain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

Other Information

The management's discussion and analysis on pages 4 - 13, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2017, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
November 24, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management's discussion and analysis of the Kenton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2017, within the limitations of the District's modified cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the modified cash-basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The total net cash position of the District increased \$1,987,265 or 17.80% from fiscal year 2016.
- General cash receipts accounted for \$20,045,051 or 75.56% of total governmental activities cash receipts. Program specific cash receipts accounted for \$6,484,273 or 24.44% of total governmental activities cash receipts.
- The District had \$24,542,059 in cash disbursements related to governmental activities; \$6,484,273 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) of \$20,045,051 were adequate to provide for these programs.
- The District's major funds are the general fund and permanent improvement fund. The general fund had cash receipts of \$21,441,937 in 2017. The cash disbursements of the general fund totaled \$20,019,181 in 2017. The general fund's fund cash balance increased \$1,422,756 from a balance of \$6,249,612 to \$7,672,368.
- The permanent improvement fund had other financing sources of \$513,820 in 2017. The permanent improvement fund cash balance increased \$513,820 from a balance of \$2,409,321 to \$2,923,141.

Using this Modified Cash Basis Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position - modified cash basis and the statement of activities - modified cash basis answer the question, "How did we do financially during 2017?" These statements include *only net cash assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than GAAP. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the modified cash basis of accounting, there are no differences in the net modified cash position and fund modified cash balances or changes in net modified cash position and changes in fund modified cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 16-17 of this report.

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

Fiduciary Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Notes to the Financial Statements

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

Government-Wide Financial Analysis

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

The table below provides a summary of the District's net position at June 30, 2017 and 2016.

	Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 13,149,073	\$ 11,129,597
Cash and cash equivalents with escrow agents	<u>-</u>	<u>32,211</u>
Total assets	<u>13,149,073</u>	<u>11,161,808</u>
<u>Net Position</u>		
Restricted	3,322,802	2,769,120
Unrestricted	<u>9,826,271</u>	<u>8,392,688</u>
Total net position	<u>\$ 13,149,073</u>	<u>\$ 11,161,808</u>

The total net position of the District increased \$1,987,265, which represents a 17.80% increase over fiscal year 2016.

The balance of government-wide unrestricted net position of \$9,826,271 may be used to meet the government's ongoing obligations to citizens and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table below shows the changes in net modified cash position for fiscal year 2017 and 2016.

	Change in Net Position	
	Governmental Activities	Governmental Activities
	<u>2017</u>	<u>2016</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 2,031,764	\$ 1,757,109
Operating grants, contributions and interest	4,452,509	2,267,770
Capital grants and contributions	<u>-</u>	<u>24,478</u>
Total program cash receipts	<u>6,484,273</u>	<u>4,049,357</u>
General cash receipts:		
Property taxes	5,473,250	5,392,441
Income taxes	2,319,889	2,815,161
Unrestricted grants	11,539,197	11,963,076
Investment earnings	63,439	41,388
Sale of capital assets	513,820	52,550
Miscellaneous	<u>135,456</u>	<u>138,396</u>
Total general cash receipts	<u>20,045,051</u>	<u>20,403,012</u>
Total cash receipts	<u>\$ 26,529,324</u>	<u>\$ 24,452,369</u>

- Continued

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Change in Net Position (Continued)

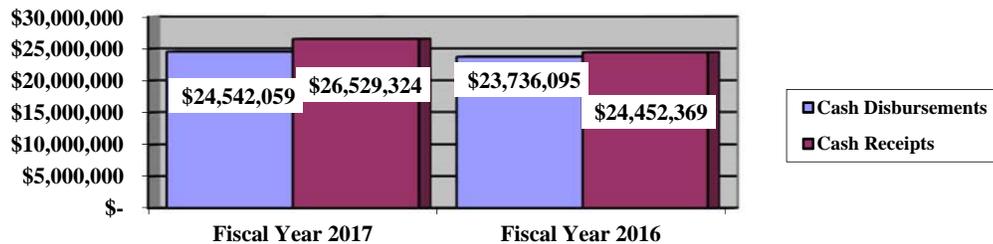
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,322,661	\$ 10,472,054
Special	3,589,154	3,598,170
Vocational	291,233	227,488
Support services:		
Pupil	1,089,480	624,758
Instructional staff	1,039,478	503,873
Board of education	65,716	51,867
Administration	2,000,934	1,797,158
Fiscal	483,286	441,785
Operations and maintenance	1,867,872	1,981,007
Pupil transportation	986,113	865,592
Central	5,225	5,225
Operation of non instructional services:		
Other non instructional services	118,815	98,543
Food service operations	1,069,613	1,043,428
Extracurricular activities	613,293	634,586
Facilities acquisition and construction	217,192	612,280
Debt service:		
Principal retirement	365,000	355,000
Interest and fiscal charges	<u>416,994</u>	<u>423,281</u>
Total cash disbursements	<u>\$ 24,542,059</u>	<u>\$ 23,736,095</u>

Governmental Activities

Governmental assets increased by \$1,987,265 in 2017 from 2016. Total governmental disbursements of \$24,542,059 were offset by program receipts of \$6,484,273 and general receipts of \$20,045,051. Program receipts supported 26.42% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These receipt sources represent 72.87% of total governmental receipts. Real estate property is reappraised every six years.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

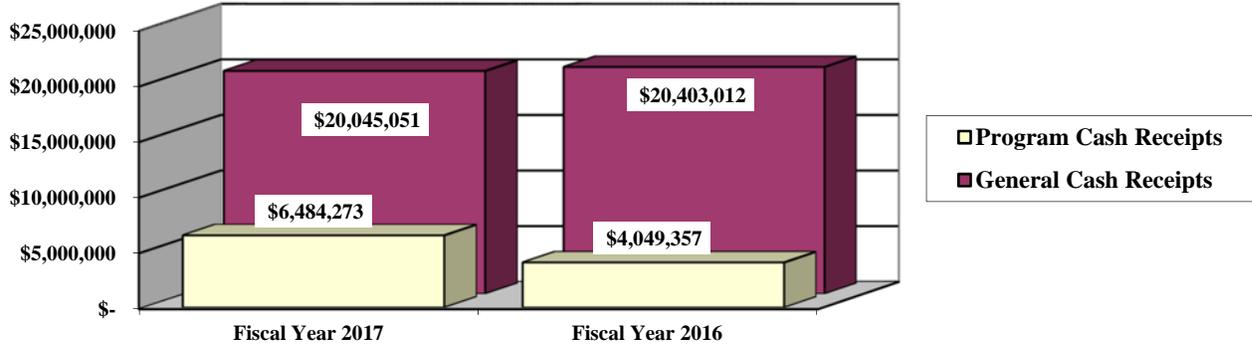
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
Cash disbursements:				
Instruction:				
Regular	\$ 10,322,661	\$ 8,849,415	\$ 10,472,054	\$ 8,812,904
Special	3,589,154	946,578	3,598,170	2,482,855
Vocational	291,233	229,636	227,488	210,271
Support services:				
Pupil	1,089,480	971,777	624,758	583,435
Instructional staff	1,039,478	482,355	503,873	453,146
Board of education	65,716	65,716	51,867	51,867
Administration	2,000,934	1,876,250	1,797,158	1,775,894
Fiscal	483,286	483,286	441,785	440,056
Operations and maintenance	1,867,872	1,808,003	1,981,007	1,925,090
Pupil transportation	986,113	944,063	865,592	863,133
Central	5,225	5,225	5,225	5,225
Operation of non instructional services:				
Other non instructional services	118,815	114,331	98,543	95,609
Food service operations	1,069,613	(130,820)	1,043,428	195,740
Extracurricular activities	613,293	412,785	634,586	400,952
Facilities acquisition and construction	217,192	217,192	612,280	612,280
Debt service:				
Principal retirement	365,000	365,000	355,000	355,000
Interest and fiscal charges	416,994	416,994	423,281	423,281
Total	<u>\$ 24,542,059</u>	<u>\$ 18,057,786</u>	<u>\$ 23,736,095</u>	<u>\$ 19,686,738</u>

The dependence upon general cash receipts for governmental activities is apparent; with 73.58% of cash disbursements supported through taxes and other general cash receipts during 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The District's governmental funds reported a combined fund modified cash balance of \$13,149,073, which is \$1,987,265 higher than last year's total balance of \$11,161,808. The schedule below indicates the fund modified cash balance and the total change in fund modified cash balance as of June 30, 2017 and June 30, 2016, for all major and nonmajor governmental funds.

	<u>Fund Balance June 30, 2017</u>	<u>Fund Balance June 30, 2016</u>	<u>Change</u>
Major funds:			
General	\$ 7,672,368	\$ 6,249,612	\$ 1,422,756
Permanent improvement	2,923,141	2,409,321	513,820
Other nonmajor governmental funds	<u>2,553,564</u>	<u>2,502,875</u>	<u>50,689</u>
Total	<u>\$ 13,149,073</u>	<u>\$ 11,161,808</u>	<u>\$ 1,987,265</u>

General Fund

The general fund had cash receipts of \$21,441,937 in 2017. The cash disbursements of the general fund, totaled \$20,019,181 in 2017. The general fund's cash balance increased \$1,422,756 from a balance of \$6,249,612 to \$7,672,368 primarily due to larger property tax collections, tuition increases and an increase State foundation money that outpaced increases in disbursements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 6,980,642	\$ 7,393,249	(5.58) %
Tuition	1,279,703	1,081,025	18.38 %
Earnings on investments	59,622	37,827	57.62 %
Other revenues	417,226	401,605	3.89 %
Intergovernmental	<u>12,704,744</u>	<u>12,263,585</u>	3.60 %
Total	<u>\$ 21,441,937</u>	<u>\$ 21,177,291</u>	1.25 %

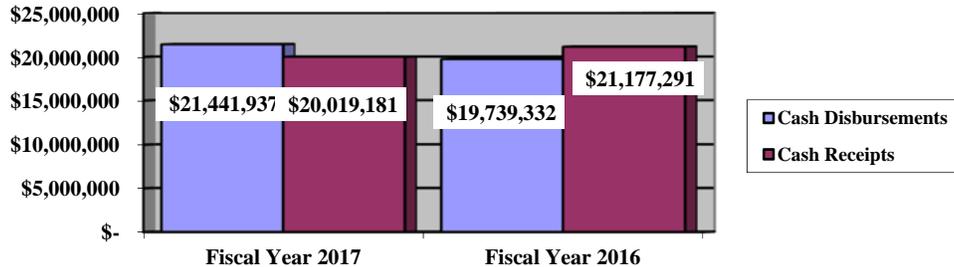
The District's general fund cash receipts increased \$264,646 or 1.25%. Taxes decreased \$412,607 or 5.58% due to a decrease in income taxes. Intergovernmental receipts increased \$441,159 or 3.60% due to increases in State foundation funding and State reimbursements for homestead and rollback.

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

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 12,775,354	\$ 13,113,660	(2.58) %
Support services	6,696,978	6,121,836	9.39 %
Operation of non instruction	114,342	95,453	19.79 %
Extracurricular	<u>432,507</u>	<u>408,383</u>	5.91 %
Total	<u>\$ 20,019,181</u>	<u>\$ 19,739,332</u>	1.42 %

The District's general fund cash disbursements increased \$279,849 or 1.42%. The largest increase was in the area of instruction which increased \$575,142. This increase was primarily due in wage and benefit increases given to employees.

General Fund - Total Cash Receipts vs. Total Cash Disbursements



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Permanent Improvement Fund

The permanent improvement fund had \$513,820 in other financing sources during 2017. The fund balance of the permanent improvement fund increased \$513,820 from \$2,409,321 to \$2,923,141. This increase was due to the sale of property held by the District.

Budgeting Highlights - General Fund

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

For the general fund, final budget basis receipts and other financing sources of \$21,143,566 were increased from the original budget estimates of \$20,813,803. Actual cash receipts of \$21,374,345 were more than final budget estimates by \$230,779. The final budget basis disbursements of \$22,202,317 were decreased \$612,573 from original budget basis disbursements of \$22,814,890 due to lower costs in various functional categories. The actual budgetary basis disbursements of \$20,418,465 were \$1,783,852 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The District had the following long-term obligations outstanding at June 30, 2017 and 2016:

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
FY 2012 school facilities construction and improvement bonds		
Serial, term and capital appreciation bonds	\$ 11,770,168	\$ 12,110,519
Premiums	282,552	291,374
Discounts	<u>(125,402)</u>	<u>(129,318)</u>
Total long-term obligations	<u>\$ 11,927,318</u>	<u>\$ 12,272,575</u>

Current Issues

The District is successfully operating its new elementary school on land north of the current high school. The District sold the final piece of land that resulted from the Ohio Facilities Construction Commission project.

In spring of 2017, the District purchased a building to renovate into a bus garage, bus barn and maintenance storage. During the 2017-2018 school year the District will move into the renovated facility.

The District is partnering with Health Partners of Northwest Ohio to make health clinics and social workers accessible at each building. The Wildcat Clinics are open to students, staff and the community.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

We are in the second year of a \$600,000 Straight A Grant, to redesign professional development for all certified staff. Teachers who successfully complete the course work will receive college credit from Ashland University to use toward licensure renewal.

Through a partnership with the Hardin County Chamber and Business Alliance, Quest Federal Credit Union, the Hardin County Ministerial Association and a 3-year 21st Century Grant (\$600,000), the District is able to provide career based instruction, mentoring, tutoring, and internships for students in grades K-12.

We received a \$100,000 community connector grant with the Hardin County Chamber and Business Alliance to create internship opportunities for juniors and seniors with local businesses.

Through the District's grant writing efforts, Kenton Elementary School has become a "Leader in Me" building. We are in year two implementation for this program which will include professional development and programming for students, staff and parents. The initial stages of the program with full implementation beginning in the 2018-2019 school year.

STEM opportunities have been expanded to Kenton Elementary students in grades 4-6. Students will participate in a 45-minute STEM innovation course once a week.

Contacting the District's Financial Management

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

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

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 13,149,073
Total assets.	13,149,073
 Net cash position:	
Restricted for:	
Capital projects	1,927,561
Classroom facilities maintenance	501,737
Debt service.	410,292
Locally funded programs	1,497
Federally funded programs	2,404
Public school support	4,453
Student activities	100,021
Other purposes	374,837
Unrestricted	9,826,271
Total net cash position	\$ 13,149,073

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Cash Disbursements	Program Cash Receipts		Net (Disbursement) Receipt and Change in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 10,322,661	\$ 1,239,816	\$ 233,430	\$ (8,849,415)
Special	3,589,154	276,397	2,366,179	(946,578)
Vocational	291,233	-	61,597	(229,636)
Support services:				
Pupil.	1,089,480	-	117,703	(971,777)
Instructional staff	1,039,478	-	557,123	(482,355)
Board of education	65,716	-	-	(65,716)
Administration.	2,000,934	-	124,684	(1,876,250)
Fiscal.	483,286	-	-	(483,286)
Operations and maintenance	1,867,872	28,318	31,551	(1,808,003)
Pupil transportation.	986,113	1,721	40,329	(944,063)
Central	5,225	-	-	(5,225)
Operation of non-instructional services:				
Other non-instructional services	118,815	-	4,484	(114,331)
Food service operations	1,069,613	306,725	893,708	130,820
Extracurricular activities.	613,293	178,787	21,721	(412,785)
Facilities acquisition and construction	217,192	-	-	(217,192)
Debt service:				
Principal retirement	365,000	-	-	(365,000)
Interest and fiscal charges	416,994	-	-	(416,994)
Total governmental activities	<u>\$ 24,542,059</u>	<u>\$ 2,031,764</u>	<u>\$ 4,452,509</u>	<u>(18,057,786)</u>
General receipts:				
Property taxes levied for:				
General purposes				4,660,753
Classroom facilities maintenance				87,190
Debt service.				725,307
Income taxes levied for:				
General purposes				2,319,889
Grants and entitlements not restricted to specific programs				11,539,197
Investment earnings				63,439
Sale of capital assets				513,820
Miscellaneous				135,456
Total general receipts.				<u>20,045,051</u>
Change in net cash position.				1,987,265
Net cash position at beginning of year				<u>11,161,808</u>
Net cash position at end of year.				<u>\$ 13,149,073</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND CASH BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 7,672,368	\$ 2,923,141	\$ 2,553,564	\$ 13,149,073
Total assets	<u>7,672,368</u>	<u>2,923,141</u>	<u>2,553,564</u>	<u>13,149,073</u>
Fund cash balances:				
Restricted:				
Debt service	-	-	410,292	410,292
Capital improvements	-	626,320	1,301,241	1,927,561
Classroom facilities maintenance	-	-	501,737	501,737
Food service operations	-	-	373,139	373,139
Other purposes	-	-	10,052	10,052
Extracurricular activities	-	-	100,021	100,021
Committed:				
Underground storage tank	11,000	-	-	11,000
Assigned:				
Student instruction	305,747	-	-	305,747
Student and staff support	176,615	-	-	176,615
Extracurricular activities	25,741	-	-	25,741
Capital improvements	-	2,296,821	-	2,296,821
Unassigned (deficit)	7,153,265	-	(142,918)	7,010,347
Total fund cash balances	<u>\$ 7,672,368</u>	<u>\$ 2,923,141</u>	<u>\$ 2,553,564</u>	<u>\$ 13,149,073</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:				
From local sources:				
Property taxes	\$ 4,660,753	\$ -	\$ 812,497	\$ 5,473,250
Income taxes	2,319,889	-	-	2,319,889
Tuition	1,279,703	-	-	1,279,703
Transportation fees	1,721	-	-	1,721
Earnings on investments	59,622	-	3,817	63,439
Charges for services	-	-	306,951	306,951
Extracurricular	13,605	-	163,340	176,945
Classroom materials and fees	39,637	-	-	39,637
Rental income	28,318	-	-	28,318
Contributions and donations	491	-	19,571	20,062
Contract services	198,489	-	-	198,489
Other local revenues	134,965	-	2,830	137,795
Intergovernmental - state	12,502,156	-	805,816	13,307,972
Intergovernmental - federal	202,588	-	2,458,745	2,661,333
Total cash receipts	21,441,937	-	4,573,567	26,015,504
Cash disbursements:				
Current:				
Instruction:				
Regular	10,082,449	-	240,212	10,322,661
Special	2,401,672	-	1,187,482	3,589,154
Vocational	291,233	-	-	291,233
Support services:				
Pupil	978,682	-	110,798	1,089,480
Instructional staff	470,090	-	569,388	1,039,478
Board of education	65,716	-	-	65,716
Administration	1,873,128	-	127,806	2,000,934
Fiscal	466,794	-	16,492	483,286
Operations and maintenance	1,851,230	-	16,642	1,867,872
Pupil transportation	986,113	-	-	986,113
Central	5,225	-	-	5,225
Operation of non-instructional services:				
Other operation of non-instructional	114,342	-	4,473	118,815
Food service operations	-	-	1,069,613	1,069,613
Extracurricular activities	432,507	-	180,786	613,293
Facilities acquisition and construction	-	-	217,192	217,192
Debt service:				
Principal retirement	-	-	365,000	365,000
Interest and fiscal charges	-	-	416,994	416,994
Total cash disbursements	20,019,181	-	4,522,878	24,542,059
Excess of cash receipts over cash disbursements	1,422,756	-	50,689	1,473,445
Other financing sources:				
Sale of capital assets	-	513,820	-	513,820
Total other financing sources	-	513,820	-	513,820
Net change in fund cash balances	1,422,756	513,820	50,689	1,987,265
Fund cash balances at beginning of year	6,249,612	2,409,321	2,502,875	11,161,808
Fund cash balances at end of year	\$ 7,672,368	\$ 2,923,141	\$ 2,553,564	\$ 13,149,073

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 4,616,065	\$ 4,659,716	\$ 4,660,753	\$ 1,037
Income taxes.	2,798,008	2,275,974	2,319,889	43,915
Tuition.	1,046,924	1,291,980	1,279,704	(12,276)
Transportation fees.	-	1,700	1,721	21
Earnings on investments	27,882	41,162	59,622	18,460
Classroom materials and fees	504	500	-	(500)
Rental income	27,333	27,118	28,318	1,200
Contract services.	100,914	100,119	198,489	98,370
Other local revenues	24,974	24,777	32,016	7,239
Intergovernmental - state	11,941,499	12,491,914	12,502,156	10,242
Intergovernmental - federal	138,910	137,816	202,588	64,772
Total budgetary basis receipts.	<u>20,723,013</u>	<u>21,052,776</u>	<u>21,285,256</u>	<u>232,480</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	10,923,822	10,775,898	10,299,523	476,375
Special.	2,844,558	2,684,677	2,402,075	282,602
Vocational.	310,233	348,087	331,584	16,503
Support services:				
Pupil.	1,174,801	1,092,480	982,399	110,081
Instructional staff	553,356	510,769	503,646	7,123
Board of education	91,202	97,096	65,716	31,380
Administration.	2,109,049	2,078,997	1,892,533	186,464
Fiscal	661,820	638,853	467,294	171,559
Operations and maintenance.	2,408,131	2,245,148	1,957,598	287,550
Pupil transportation	1,151,701	1,129,143	999,181	129,962
Central.	5,500	5,500	5,225	275
Other operation of non-instructional services	116,372	116,144	114,342	1,802
Extracurricular activities.	464,345	479,525	397,349	82,176
Total budgetary basis disbursements	<u>22,814,890</u>	<u>22,202,317</u>	<u>20,418,465</u>	<u>1,783,852</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>(2,091,877)</u>	<u>(1,149,541)</u>	<u>866,791</u>	<u>2,016,332</u>
Other financing sources (uses):				
Refund of prior year's expenditures	89,790	89,790	89,089	(701)
Sale of capital assets	1,000	1,000	-	(1,000)
Total other financing sources (uses)	<u>90,790</u>	<u>90,790</u>	<u>89,089</u>	<u>(1,701)</u>
Net change in fund balance	(2,001,087)	(1,058,751)	955,880	2,014,631
Fund balance at beginning of year	5,539,592	5,539,592	5,539,592	-
Prior year encumbrances appropriated	630,005	630,005	630,005	-
Fund balance at end of year	<u>\$ 4,168,510</u>	<u>\$ 5,110,846</u>	<u>\$ 7,125,477</u>	<u>\$ 2,014,631</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET CASH POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and investments	\$ 36,647	\$ 153,438
Total assets.	<u>36,647</u>	<u>\$ 153,438</u>
Liabilities:		
Due to students.	-	\$ 93,459
Due to others	-	59,979
Total liabilities	<u>-</u>	<u>\$ 153,438</u>
Net cash position:		
Held in trust for students	189	
Held in trust for scholarships	<u>36,458</u>	
Total net cash position	<u>\$ 36,647</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET CASH POSITION
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions	\$ 10,425
Total additions	10,425
 Deductions:	
Scholarships awarded	5,499
 Change in net position	4,926
Net cash position at beginning of year . .	31,721
Net cash position at end of year	\$ 36,647

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE DISTRICT

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

The District was established in 1888. The District serves an area of approximately one-hundred- twelve square miles. It is located in Hardin and Wyandot Counties and includes all of Pleasant Township, portions of Cessna, Dudley, Goshen, Lynn, McDonald, and Taylor Creek Townships, and the City of Kenton. The District is staffed by 90 classified employees, 146 certified teaching personnel, and 35 administrative employees who provide services to 1,920 students and other community members. The District currently operates eight instructional/support buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The District participates in two jointly governed organizations and three insurance pools. These organizations are the Ohio Hi-Point Career Center, Western Ohio Computer Organization, Schools of Ohio Risk Sharing Authority, Hardin County School Employees’ Health and Welfare Benefit Plan and Trust, and the Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

B. Basis of Presentation

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

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's major governmental funds are the General Fund and the Permanent Improvement capital project fund.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide services to needy students and college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds accounts for various student-managed activities and a flexible spending account (FSA).

D. Basis of Accounting

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

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

E. Budgetary Process

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

F. Cash and Investments

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

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

During fiscal year 2017, investments consisted of a U.S. Government money market account, Federal Home Loan Bank (FHLB) bonds, Federal Home Loan Mortgage Corporation (FHLMC) bonds, negotiable certificates of deposit and STAR Ohio. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 was \$59,622, which includes \$23,858 assigned from other District funds. Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its 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 an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

G. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Net Position

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

K. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. Fund balance policy of the Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated. The Board may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriation budget.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

L. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2017, the follow funds had deficit fund balances:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Public school preschool	\$ 17,438
Vocational education enhancement	103
Straight A	18,404
Title VI-B	37,071
Title I	38,003
IDEA preschool grant	1,609
Title II-A	247
Miscellaneous federal grants	30,043

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

B. Compliance

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

C. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 80, "Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14" and GASB Statement No. 82, "Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the District's fiscal year 2017 financial statements (see Note 9); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the School District had \$200 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

At June 30, 2017, the carrying amount of all District deposits was \$9,487,834. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$7,419,511 of the District's bank balance of \$9,798,320 was exposed to custodial risk as discussed below, while \$2,378,809 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2017, the District has the following investments:

<u>Investment type</u>	<u>Cost</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 750,000	\$ -	\$ -	\$ -	\$ -	\$ 750,000
FHLMC	750,000	-	-	-	-	750,000
Negotiable CDs	828,819	-	480,000	239,940	108,879	-
U.S. Government money market	18,607	18,607	-	-	-	-
STAR Ohio	<u>1,503,698</u>	<u>1,503,698</u>	-	-	-	-
Total	<u>\$ 3,851,124</u>	<u>\$ 1,522,305</u>	<u>\$ 480,000</u>	<u>\$ 239,940</u>	<u>\$ 108,879</u>	<u>\$ 1,500,000</u>

The weighted average maturity of investments is 1.89 years.

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

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer other than for commercial paper and banker's acceptances. The following table includes the percentage of each investment type held by the District at June 30, 2017:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
FHLB	\$ 750,000	19.47
FHLMC	750,000	19.47
Negotiable CDs	828,819	21.52
U.S. Government money market	18,607	0.48
STAR Ohio	<u>1,503,698</u>	<u>39.05</u>
Total	<u>\$ 3,851,124</u>	<u>99.99</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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 - modified cash basis as of June 30, 2017:

Cash and investments per note

Carrying amount of deposits	\$ 9,487,834
Investments	3,851,124
Cash on hand	<u>200</u>
Total	<u>\$ 13,339,158</u>

Cash and investments per financial statements

Governmental activities	\$ 13,149,073
Private-purpose trust funds	36,647
Agency funds	<u>153,438</u>
Total	<u>\$ 13,339,158</u>

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, 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 2017 represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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.

The District receives property taxes from Hardin and Wyandot Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 225,199,400	94.55	\$ 223,685,720	94.55
Public utility personal	<u>12,973,280</u>	<u>5.45</u>	<u>12,882,910</u>	<u>5.45</u>
Total	<u>\$ 238,172,680</u>	<u>100.00</u>	<u>\$ 236,568,630</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
General operations	\$34.20		\$34.20	
Bond retirement	3.40		3.40	
Classroom facilities maintenance	0.50		0.50	

NOTE 6 - INCOME TAXES

The District levies a voted tax of 1.0 percent for general operations on the income of residents and of estates. A portion of the tax (1 percent) was effective on January 1, 1996, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District contracted for the following insurance coverage.

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

Property	
General Liability	
Per Occurrence	\$ 15,000,000
Aggregate	17,000,000
Automobile Liability	15,000,000
Uninsured Motorists	1,000,000

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

For fiscal year 2017, the District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSRA for insurance coverage and pays annual premiums to SORSRA based on the types and limits of coverage and deductibles selected by the participant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - RISK MANAGEMENT - (Continued)

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

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

NOTE 8 - COMMITMENTS

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

<u>Fund</u>	<u>Year-end Encumbrances</u>
General fund	\$ 483,683
Other governmental	<u>53,057</u>
Total	<u><u>\$ 536,740</u></u>

NOTE 9 - PENSION PLANS

Net Pension Liability

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$398,526 for fiscal year 2017.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - County licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

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, 12.0% of the 14% member rate goes to the DC Plan and the remaining 2.0% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - 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. For fiscal year 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$1,309,297 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportion of the net pension liability prior measurement date	0.08100830%	0.08003868%	
Proportion of the net pension liability current measurement date	<u>0.08391450%</u>	<u>0.08153379%</u>	
Change in proportionate share	<u>0.00290620%</u>	<u>0.00149511%</u>	
Proportionate share of the net pension liability	\$ 6,141,767	\$ 27,291,817	\$ 33,433,584

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 8,131,317	\$ 6,141,767	\$ 4,476,431

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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 %	7.61 %

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 36,268,607	\$ 27,291,817	\$ 19,719,366

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 10 - 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 under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$43,138, \$42,786, and \$59,196, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2017 were as follows:

	Balance 6/30/16	Additions	Reductions	Balance 6/30/17	Due Within One Year
Governmental Activities:					
Capital leases	\$ 72,024	\$ -	\$ (35,140)	\$ 36,884	\$ 36,884
General Obligation Bonds					
FY 2012 School Facilities Construction and Improvement Bonds					
Serial Bonds 1.5-4%	7,320,000	-	(365,000)	6,955,000	370,000
Term Bonds 4%	4,705,000	-	-	4,705,000	-
Capital Appreciation Bonds	29,587	-	-	29,587	-
Accreted interest	55,932	24,649	-	80,581	-
Premium	291,374	-	(8,822)	282,552	-
Discount	(129,318)	-	3,916	(125,402)	-
	<u> </u>				
Total General Obligation Bonds	<u>\$ 12,344,599</u>	<u>\$ 24,649</u>	<u>\$ (405,046)</u>	<u>\$ 11,964,202</u>	<u>\$ 406,884</u>

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

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

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

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

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds mature in fiscal year 2022. The maturity amount of the bonds is \$295,000. For fiscal year 2017, \$80,581 was accreted for a total bond value of \$110,168 at fiscal year-end.

The District's overall debt margin was \$10,011,882 with an unvoted debt margin of \$236,569 at June 30, 2017.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2017, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial & Term			Capital Appreciation		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 370,000	\$ 410,556	\$ 780,556	\$ -	\$ -	\$ -
2019	375,000	403,106	778,106	-	-	-
2020	385,000	395,025	780,025	-	-	-
2021	250,000	387,569	637,569	16,410	128,590	145,000
2022	250,000	380,694	630,694	13,177	136,823	150,000
2023 - 2027	2,170,000	1,704,801	3,874,801	-	-	-
2028 - 2032	2,580,000	1,287,746	3,867,746	-	-	-
2033 - 2037	3,105,000	754,382	3,859,382	-	-	-
2038 - 2040	<u>2,175,000</u>	<u>132,900</u>	<u>2,307,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,660,000</u>	<u>\$ 5,856,779</u>	<u>\$ 17,516,779</u>	<u>\$ 29,587</u>	<u>\$ 265,413</u>	<u>\$ 295,000</u>

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the District entered into capital leases for the acquisition of dishwashers and laptops. Each lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The original amount of the leases was \$161,065. The District made \$35,140 in principal payments on the leases during fiscal year 2017. Capital lease payments are reflected as regular and food service operations disbursements for governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2017.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	<u>\$ 39,971</u>
Total minimum lease payments	39,971
Less: amount representing interest	<u>3,087</u>
Total	<u>\$ 43,058</u>

NOTE 14 - 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - SET-ASIDES - (Continued)

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, 2016	\$ -
Current year set-aside requirement	334,781
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	-
Excess qualified expenditures from prior years	-
Current year offsets	(611,273)
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (276,492)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

During fiscal year 2012, the District issued a total of \$13,604,587 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$13,364,717 at June 30, 2017.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Career Center

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

B. Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of governments within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member Districts within each county plus a representative from the fiscal agent District. During fiscal year 2017, the District paid \$160,442 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

NOTE 16 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 17 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

B. Litigation

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

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

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

Fund Balance at year end

	<u>General fund</u>
Modified cash basis	\$ 7,672,368
Funds budgeted elsewhere	(68,145)
Adjustment for encumbrances	<u>(478,746)</u>
Budget basis	<u>\$ 7,125,477</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 19 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Buck Township entered into a tax abatement agreement with Robinson Fin Machines for the abatement of property taxes to bring jobs and economic development into the Township. The agreement affects the property tax receipts collected and distributed to the District. Under the agreement, the District property taxes were reduced by \$4,105 during fiscal year 2017.

The City of Kenton entered into a tax abatement agreement with International Paper for the abatement of property taxes to bring jobs and economic development into the City. The agreement affects the property tax receipts collected and distributed to the District. Under the agreement, the District property taxes were reduced by \$75,756 during fiscal year 2017.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<i>Child Nutrition Cluster:</i>			
Cash Assistance			
National School Lunch Program	10.555	3L60	\$ 602,933
National School Breakfast Program	10.553	3L70	303,072
Summer Food Services Program for Children	10.559	3L60	17,399
Non-Cash Assistance			
National School Lunch Program - See Note D	10.555	3L60	69,206
Total U.S. Department of Agriculture			<u>992,610</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<i>Title I, Part A:</i>			
Title I Grants to LEA FY16	84.010	3M00	93,442
Title I Grants to LEA FY17	84.010	3M00	595,905
Total Title I			<u>689,347</u>
<i>Special Education Cluster (IDEA):</i>			
Special Education - Grants to States (IDEA, Part B)	84.027	3M20	477,114
Special Education - Preschool Grants (IDEA Preschool)	84.173	3C50	12,540
Total IDEA Part B Special Education Cluster			<u>489,654</u>
Rural Education FY16	84.358	3Y80	20,276
Rural Education FY17	84.358	3Y80	46,104
Total Rural Education			<u>66,380</u>
Improving Teacher Quality State Grants FY16	84.367	3Y60	1,920
Improving Teacher Quality State Grants FY17	84.367	3Y60	97,705
Total Improving Teacher Quality			<u>99,625</u>
After School Learning Centers (21st Century) Subsidy FY16	84.287		38,226
After School Learning Centers (21st Century) Subsidy FY17	84.287		159,089
Total 21st Century			<u>197,315</u>
Total U.S. Department of Education			<u>1,542,321</u>
Total Expenditures of Federal Awards			<u>\$ 2,534,931</u>

The accompanying notes are an integral part of this schedule.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Kenton City School District (the District's) under programs of the federal government for the year ended June 30, 2017. 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 or changes in net position 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 not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles 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.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts between program years:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 13,121
Special Education - Grants to States	84.027	4,162
Special Education - Preschool Grants	84.173	535
Rural Education	84.358	6,351
Improving Teacher Quality State Grants	84.367	6,854

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenton City School District, Hardin County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2017, wherein we noted that District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2017-001.

We noted a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 24, 2017.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.
November 24, 2017

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614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Kenton City School District
Hardin County
222 West Carrol Street
Kenton, Ohio 43326

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Kenton City School District, Hardin County, Ohio's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 opinion on compliance for each major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Kenton City School District, Hardin County, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

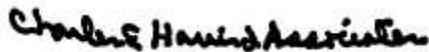
Report on Internal Control Over Compliance

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

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

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

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



Charles E. Harris & Associates, Inc.
November 24, 2017

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: CFDA # 10.553, 10.555 and 10.559 21 st Century: CFDA # 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

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

FINDING NUMBER 2017-001: Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District did not report the financial activity of the District in accordance with generally accepted accounting principles for fiscal year ending June 30, 2017. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The Board of Education should review the standards and ensure preparation of its financial statements in accordance with AICPA's Audit and Accounting Guide Audits of State and Local Governments. The Board of Education should ensure the financial statements are prepared in accordance with the Ohio Administrative Code and the Ohio Revised Code. Implementation of these procedures would help ensure accurate and timely financial statements are available to the District's community.

Official's Response:

See Corrective Action Plan

3. FINDINGS FOR FEDERAL AWARDS

None

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	<p>Noncompliance Finding – Ohio Rev. Code § 117.38 – The financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America.</p>	Not corrected	Repeated as finding 2017-001
2016-002	<p>Material Weakness – Bank Reconciliation and Recording of activity in Agency Fund – Flex Account – No reconciliation of the flex account has been done in 4 years and the account balance is understated in the financial statements</p>	Partially corrected	Activity in this account is decreasing. Reconciliation done at year-end and difference was immaterial. Moved to management letter.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
JUNE 30, 2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	GAAP statements have not been filed since the Board agreed with the Treasurer to suspend such preparation due to its high cost and limited usage. It is not anticipated that GAAP Statements will be filed in the future.	N/A	Tracy Hiller, Treasurer



Dave Yost • Auditor of State

KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2018**